

MPI CORPORATION
Parent Company Only
Financial Statements for the Years Ended
December 31, 2016 and 2015
And Independent Auditors' Report

MPI CORPORATION

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Independent Auditor's Audit Report

The Board of Directors and Shareholders

MPI Corporation

Opinion

We have audited the accompanying financial statements of MPI CORPORATION (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters on the financial statements for the year ended December 31, 2016 were as follows:

1. Revenue Recognition

Matter Description

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Regarding the accounting policy of revenue recognition, please refer to (16) of Note 4 of the Individual Financial Statements. Regarding relevant disclosure, please refer to Note 9 and Statements of Major Accounting Items - Statement of Operating Revenue.

Sales revenue is the major index for investors and the management to evaluate the finance or performance of MPI Corporation. As the point in time for revenue recognition and the amount of recognized revenue can make a big difference on the financial statements, the CPA(s) has also reviewed the accuracy of these two key factors during the audit.

Audit Procedures in Response

The CPA(s) has implemented audit procedures in response as summarized below:

- (1) Understood and tested the design and implementation efficiency of sales and receiving circulation control system.
- (2) Understood the major revenue type and trading terms of MPI Corporation to assess if the accounting policy of point in time for revenue recognition is appropriate.
- (3) Understood the product type and sales of the top 10 customers; sampled and reviewed the orders; assessed the influence of trading terms to revenue recognition; and confirmed if MPI Corporation has handled accounting relevant activities appropriately.
- (4) Evaluated if the number of days for turning over the sales revenue and payables; and analyzed changes to customers of this and last year at the same time point to see if there is any abnormality.
- (5) Implemented the detail test, where transactions of sales revenue before and after the financial statements within a specified period have been sampled to carry out the cut-off test and verify relevant certificates. Changes to the inventory in account books and transferred sales costs have been recorded during an appropriate period of period to evaluate the correctness of the period of recognizing the revenue, ensure if there is any abnormal revenue journal voucher, and understand if there is any grave refund or return after the period.

2. Inventory Valuation

Matter Description

Regarding the accounting policy of inventory valuation, please refer to (7) of Note 4 of Individual Financial Statements. Regarding significant accounting judgments, estimations, and assumptions of inventory valuation, please refer to Note 5 of Individual Financial Statements. Regarding descriptions of inventory accounting items, please refer to (4) of Note 6 of Individual Financial Statements. The Company recognize inventories amounting to NT\$2,132,335 thousand and Allowance for inventories amounting to NT\$212,012 thousand. The book value of the Company's

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inventories as December 31, 2016 was NT\$1,920,323 thousand and accounted 27% of the total assets in the consolidated balance sheet.

MPI Corporation mainly engages in the manufacturing and sales of semiconductor production and testing equipment. Due to rapid technological changes, short life cycle and intense market competition of electronic products, there is a high tendency for inventory valuation loss and losses caused by outdated inventory. The inventory is evaluated by either the cost or net realizable value, depending on which one has the lower value. Inventories that exceed specific inventory age or are evaluated as outdated during individual assessment shall have the inventory loss evaluation conducted also based on the inventory age and future product demand during specific period of time. The information comes from the management's judgement on each product's net realizable value based on the inventory sales, age and quality conditions. As the amount of MPI Corporation's inventory is great; a number of items are included on the inventory list; and the valuation of inventories that have exceeded specific age or are outdated relies heavily on the management's subjective judgement and involves a high degree of uncertainty, the Account(s) believes that the inventory valuation and obsolescence loss is one of the key audit matters of the year.

Audit Procedures in Response

The CPA(s) has implemented the audit procedures in response as summarized below:

- (1) With the CPA's knowledge of the industry and MPI Corporation's operations, evaluated the soundness of the Corporation's policies concerning the allowance for inventory valuation loss and doubtful debts.
 - (2) Understood MPI Corporation's inventory management procedures, reviewed its annual inventory plan, and participated in its annual inventory check to evaluate the management's judgement and control efficiency of outdated inventories.
 - (3) Acquired the list of product inventory age, verified the appropriateness of reporting system logic, and confirmed the consistency of report information and adopted policies.
 - (4) Evaluated the appropriateness of the methods of calculating inventory valuation impairment, including deciding the inventory classification based on the net realizable value, checking individual material number to verify the basic assumption of the calculation in relevant supporting document, and verify the accuracy of calculation.
- 3. Impairment Evaluation of Investments Accounted for Using the Equity Method (Goodwill Impairment Evaluation):**

Matter Description

Regarding the accounting policy of goodwill impairment, please refer to impairment of intangible

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assets and non-financial assets as described in (12) and (13) of Note 4 of Individual Financial Statements. Regarding significant accounting judgments, estimations, and assumptions of goodwill impairment evaluation, please refer to Note 5 of Individual Financial Statements. Regarding descriptions of goodwill impairment evaluation, please refer to Investments Accounted for Using the Equity Method as described in (6) of Note 6 of Individual Financial Statements.

MPI Corporation acquired 100% equity of Allstron Corp (Allstron), and recognized goodwill with a value of NT\$45,533 thousand in the Consolidated Financial Statements. As a player in the electronic industry, Allstron is targeting the segment of measurement applications for its product line. For MPI Corporation, Allstron is a cash generating unit, and for goodwill impairment evaluation, Allstron's forecasted cash flow has been applied with an appropriate discount rate to measure this cash generating unit's recoverable amount. This year, the Allstron product line suffered from market downturn and unfavorable sales. Conducted by MPI Corporation, the evaluation of Allstron's recoverable amount revealed that its recoverable amount was lower than its goodwill carrying amount. MPI Corporation therefore recognized goodwill impairment with a value of NT\$45,533 thousand which is around 7% of individual benefits before tax, this year.

Regarding this cash generating unit's forecasted cash flow that is used to measure its recoverable amount, the forecast can come easily with subjective judgement and is accompanied with a high degree of uncertainty as it involves a number of assumptions, including the applied discount rate and five-year financial forecast that is used to estimate the future cash flow. These assumptions can make a huge difference in the measurement of recoverable amount and further affect the estimation of goodwill impairment amount. Therefore, the CPA(s) believes that the goodwill impairment evaluation conducted by MPI Corporation on Allstron shall be is one of the key audit matters of the year.

Audit Procedures in Response

Regarding specific descriptions of above key audit matters, the CPA(s) has implemented the audit procedures in response as summarized below:

- (1) Evaluated the management's procedures of forecasting Allstron's future cash flow and compared the consistency between the evaluation model's cash-flow forecast for the incoming five years and the operation approved by the management.
- (2) Discussed specific actions conducted during the operation plan and reviewed management's actual performance in the past operation plan to evaluate its will and ability to perform.
- (3) With supports of the Nexia Sun Rise's financial consultants and experts, evaluated the soundness of evaluation model, all types of growth rates, discount rate and other major assumptions

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adopted by the internal evaluators of the management. The procedures include:

- A. The process and accordance of forecasting the sales growth rate and interest rate.
- B. Check the generating unit's capital cost assumptions for adopted discount rate and compare it with similar return on assets in the market.
- C. Checked the parameter and equation setting of the evaluation model.
- D. Evaluated alternative assumptions of various forecasted growth rates and discounts rates adopted by the management to perform the sensitivity analysis of future cash flow; and confirmed the management has appropriately handled the uncertainty and possible influence involved in the estimation of impairment evaluation.

Other Matter-Making Reference to the Audits of Component Auditors

As stated in the individual financial statements Note 6, Certain investments, which were accounted for under the equity method based on the financial statements of the investees, were audited by other independent accountants. Respectively, the related shares of investment income from the subsidiaries amounted to NT\$(3,420) thousand and NT\$(1,018) thousand. Insofar as it related to the investments accounted for under the equity method balances of NT\$ 19,074 thousand and NT\$23,351 thousand as of December 31, 2016, December 31, 2015.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including supervisors, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

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audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in

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internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Sun Rise CPAs & Company

Sun Rise CPAs & Company
Taipei, Taiwan, Republic of China

March 24, 2017

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

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MPI CORPORATION
CONSOLIDATED BALANCE SHEETS (ASSETS)

DECEMBER 31, 2016 AND 2015

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

ASSETS	Note	December 31, 2016		December 31, 2015	
		Amounts	%	Amounts	%
CURRENT LIABILITIES					
Cash and cash equivalents	6(1)	\$ 475,399	7	\$ 234,594	4
Current financial assets at fair value through profit or loss	6(12)	60	-	-	-
Notes receivable, net	6(2)	5	-	5,403	-
Accounts receivable, net	6(3)	543,350	8	554,238	8
Accounts receivable -related parties, net	6(3).7	185,119	3	329,232	5
Other receivables		12,808	-	17,644	-
Other receivables -related parties	7	28,253	-	21,499	-
Inventories, net	6(4)	1,920,323	27	1,590,834	24
Prepayments		51,798	1	44,705	1
Other current assets	8	9,468	-	9,220	1
Total Current Assets		3,226,583	46	2,807,369	43
NONCURRENT ASSETS					
Investments accounted for using equity method	6(6)	809,405	11	837,241	13
Property, plant and equipment	6(7).7.8	2,612,388	37	2,595,075	40
Intangible assets	6(8)	35,293	-	35,739	-
Deferred income tax assets	6(18)	62,330	1	58,444	1
Other noncurrent assets		385,169	5	201,612	3
Total Noncurrent Assets		3,904,585	54	3,728,111	57
TOTAL ASSETS		\$ 7,131,168	100	\$ 6,535,480	100

(The accompanying notes are an integral part of the parent company only financial statements)

MPI CORPORATION
CONSOLIDATED BALANCE SHEETS (LIABILITIES AND EQUITY)

DECEMBER 31, 2016 AND 2015

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

LIABILITIES AND EQUITY	Note	December 31, 2016		December 31, 2015	
		Amounts	%	Amounts	%
CURRENT LIABILITIES					
Short-term loans	6(9)	\$ 380,000	5	\$ 550,000	8
Current financial liabilities at fair value through profit or loss	6(12)	-	-	1,682	-
Accounts payable		405,426	6	369,674	6
Accounts payable-related parties	7	747	-	4,419	-
Payables on equipment		129,342	2	90,945	1
Other payables	6(10)	602,208	9	444,317	7
Other payables-related parties	7	85,971	1	63,569	1
Income tax payable		42,644	1	40,191	1
Provisions	6(11)	2,595	-	1,240	-
Sales revenue received in advance	7	648,794	9	453,325	7
Corporate bonds payable – current portion	6(12)	590,647	8	579,433	9
Current portion of long-term liabilities	6(13)	9,328	-	9,328	-
Other current liabilities		9,886	-	12,671	-
Total Current Liabilities		<u>2,907,588</u>	<u>41</u>	<u>2,620,794</u>	<u>40</u>
NONCURRENT LIABILITIES					
Long-term loans	6(13)	240,640	4	250,068	4
Deferred income tax liabilities	6(18)	8,433	-	7,547	-
Accrued pension cost	6(14)	27,454	-	23,225	-
Other noncurrent liabilities		97	-	1,256	-
Total Other Liabilities		<u>276,624</u>	<u>4</u>	<u>282,096</u>	<u>4</u>
TOTAL LIABILITIES		<u>3,184,212</u>	<u>45</u>	<u>2,902,890</u>	<u>44</u>
EQUITY					
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT					
Capital common stock		796,054	11	796,054	12
Capital surplus		885,735	12	871,572	13
Retained earnings					
Appropriated as legal capital reserve		492,188	7	462,706	7
Unappropriated earnings		1,803,156	25	1,509,840	23
Total Retained Earnings		<u>2,295,344</u>	<u>32</u>	<u>1,972,546</u>	<u>30</u>
Other					
Foreign currency translation adjustments		(30,177)	-	26,872	1
Total others		<u>(30,177)</u>	<u>-</u>	<u>26,872</u>	<u>1</u>
Treasury stock		-	-	(34,454)	-
Equity attributable to shareholders of the parent		<u>3,946,956</u>	<u>55</u>	<u>3,632,590</u>	<u>56</u>
TOTAL EQUITY		<u>3,946,956</u>	<u>55</u>	<u>3,632,590</u>	<u>56</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 7,131,168</u>	<u>100</u>	<u>\$ 6,535,480</u>	<u>100</u>

(The accompanying notes are an integral part of the parent company only financial statements)

MPI CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

From January 1 to December 31, 2016 and 2015

(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Note	January 1 ~ December 31, 2016		January 1 ~ December 31, 2015	
		Amounts	%	Amounts	%
OPERATING REVENUE, NET	7				
Sales revenue		\$ 4,344,020	98	\$ 3,787,894	99
Less: sales returns		(2,532)	-	(2,862)	-
sales discounts and allowances		-	-	(2,101)	-
Commission revenue		81,118	2	55,162	1
Operating Revenue, net		4,422,606	100	3,838,093	100
OPERATING COSTS	6(4).7	(2,291,817)	(52)	(2,076,616)	(54)
GROSS PROFIT		2,130,789	48	1,761,477	46
Realized (Unrealized) Gross profit on sales to subsidiaries and associates		23,501	1	(83,913)	(2)
GROSS PROFIT, NET		2,154,290	49	1,677,564	44
OPERATING EXPENSES	7				
Selling expenses		(423,157)	(10)	(379,727)	(10)
General & administrative expenses		(246,118)	(6)	(194,240)	(5)
Research and development expenses	6(8)	(848,764)	(19)	(819,490)	(21)
Operating expense, net		(1,518,039)	(35)	(1,393,457)	(36)
OPERATING INCOME		636,251	14	284,107	8
NON-OPERATING INCOME AND EXPENSES					
Other gains and losses	6(17)	(58,574)	(1)	17,385	-
Finance costs	6(17)	(18,608)	-	(13,177)	-
Share of profits of subsidiaries and associates	6(6)	18,596	-	3,402	-
Interest income	7	540	-	887	-
Rent income	7	11,424	-	12,758	-
Allowance (reversal) for doubtful accounts	6(3)	235	-	-	-
Other non-operating revenue-other items	7	43,751	1	33,315	1
Total Non-operating Income		(2,636)	-	54,570	1
INCOME BEFORE INCOME TAX		633,615	14	338,677	9
INCOME TAX BENEFIT(EXPENSE)	6(18)	(70,336)	(1)	(43,857)	(1)
NET INCOME		563,279	13	294,820	8
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that are not to be reclassified to profit or loss					
Re-measurements from defined benefit plans		(2,682)	-	(8,049)	-
Share of remeasurements of defined benefit plans of subsidiaries and associates		1,017	-	(359)	-
Items that may be reclassified subsequently to profit or loss					
Exchange differences arising on translation of foreign operations		(57,049)	(1)	(13,900)	(1)
Share of other comprehensive income of subsidiaries		-	-	-	-
Other comprehensive income for the year, net of income tax		(58,714)	(1)	(22,308)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		\$ 504,565	12	\$ 272,512	7
NET INCOME (LOSS) ATTRIBUTABLE TO :	6(19)				
Shareholders of the parent		\$ 7.09		\$ 3.71	
Noncontrolling interests		\$ 6.49		\$ 3.42	

(The accompanying notes are an integral part of the parent company only financial statements)

MPI CORPORATION
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
From January 1 to December 31, 2016 and 2015
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Capital-		Retained Earnings			Others		Total Equity
	Common Stock	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Foreign Currency Translation Reserve	Treasury Stock	
BALANCE, JANUARY 1, 2015	\$ 795,354	\$ 885,012	\$ 410,942	\$ -	\$ 1,593,614	40,772	\$ -	\$ 3,725,704
Legal capital reserve			51,764		(51,764)			(318,422)
Cash Dividends of Common Stock								(19,306)
Capital Reserve From Stock Warrants		(325)			(318,422)			204,820
Disposal of investments accounted for under the equity method		(19,306)						(22,305)
Net Income in 2015					294,820			272,512
Other comprehensive income in 2015, net of income tax					(8,408)			6,881
Total comprehensive income in 2015					286,412	(13,900)		(19,306)
Convertible Bonds Transferred To Common Stock	690					(13,900)		204,820
Decrease (increase) in treasury stock								(22,305)
BALANCE, DECEMBER 31, 2015	\$ 796,054	\$ 871,572	\$ 462,706	\$ -	\$ 1,509,840	26,872	\$ (34,454)	\$ 3,632,590
BALANCE, JANUARY 1, 2016	\$ 796,054	\$ 871,572	\$ 462,706	\$ -	\$ 1,509,840	26,872	\$ (34,454)	\$ 3,632,590
Legal capital reserve			29,482		(29,482)			(238,816)
Cash Dividends of Common Stock								563,279
Net Income in 2016								(58,714)
Other comprehensive income in 2016, net of income tax					(1,665)			504,565
Total comprehensive income					561,614	(57,049)		48,617
Issuance of stock from exercise of employee stock options		14,163					34,454	
BALANCE, DECEMBER 31, 2016	\$ 798,054	\$ 885,735	\$ 492,188	\$ -	\$ 1,803,156	(30,177)	\$ -	\$ 3,946,956

(The accompanying notes are an integral part of these consolidated financial statements)

MPI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
From January 1 to December 31, 2016 and 2015
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Jan 1 ~ Dec 31, 2016	Jan 1 ~ Dec 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 633,615	\$ 338,677
Adjustments to reconcile net income to net		
Depreciation	232,438	176,163
Amortization	44,731	40,241
(Reversal) allowance for doubtful receivables	(235)	3,649
Gains on Financial Assets (Liabilities) at Fair Value through Profit or Loss	(1,742)	2,285
Interest expense	18,608	13,177
Interest revenue	(540)	(887)
Compensation cost of employee stock options	12,937	-
Loss (gain) on equity-method investments	(18,596)	(3,402)
(Gain) loss on disposal of property, plant and equipment	175	285
Gains on disposal of investments	-	(5,706)
Loss on valuation of nonfinancial asset	45,533	-
(Realized) Unrealized gross profit on sales to subsidiaries and associates	(23,501)	83,913
Adjustments-exchange (Gain) loss on prepayments for equipment	(564)	1,677
Net changes in operating assets and liabilities		
Decrease (Increase) in notes receivable	5,398	4,527
Decrease (Increase) in notes receivable-related parties	-	5,299
Decrease (Increase) in accounts receivable	11,050	(98,879)
Decrease (Increase) in accounts receivable-related parties	144,186	41,808
Decrease (Increase) in other receivables	4,835	2,656
Decrease (Increase) in other receivables-related parties	(6,754)	(17,490)
Decrease (Increase) in inventories	(329,489)	42,384
Decrease (Increase) in prepayments	(7,093)	15,917
Decrease (Increase) in other current assets	(210)	(166)
Net changes in operating assets and liabilities		
(Decrease) Increase in accounts payable	35,752	(87,260)
(Decrease) Increase in accounts payable-related parties	(3,672)	(3,386)
(Decrease) Increase in other accounts payable	158,008	(72,313)
(Decrease) Increase in other accounts payable-related parties	22,401	23,033
(Decrease) Increase in provision of liabilities	1,355	(3,616)
(Decrease) Increase in sales revenue received in advance	195,469	(154,819)
(Decrease) Increase in other current liabilities	(2,785)	625
Decrease(Increase) in accrued pension cost	1,548	(3,168)
Cash generated from operations	<u>1,172,858</u>	<u>345,224</u>
Interest received	540	1,027
Interest (excluding capitalization of interest)	(7,512)	(2,039)
Cash dividends	(238,816)	(318,422)
Income taxes paid	(70,881)	(81,979)
Net cash Provided By Operating Activities	<u>856,189</u>	<u>(56,189)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets measured at cost	-	25,938
Addition of investments accounted for using equity method	(48,555)	(349,990)
Disposal of investments accounted for using equity method	13,254	-
Additions to property, plant and equipment	(211,447)	(886,717)
Proceeds from sale of property, plant and equipment	482	126
Intangible assets	(22,402)	(28,057)
Increase in other financial assets	(38)	(29)
(Increase) in other non-current assets	(205,440)	-
Decrease in other non-current assets	-	80,161
Cash dividends received from equity-method investees	5,000	22,700
Net cash Provided Used In Investing Activities	<u>(469,146)</u>	<u>(1,135,868)</u>

(Continue)

MPI CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
From January 1 to December 31, 2016 and 2015
(All amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Items	Jan 1 ~ Dec 31, 2016	Jan 1 ~ Dec 31, 2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	-	550,000
(decrease) in short-term loans	(170,000)	-
Increase in long-term borrowings	-	191,771
Repayments of long-term loans	(9,428)	-
Increase (decrease) in noncurrent liabilities	(1,159)	-
Decrease (increase) in treasury stock	-	(34,454)
Employees to repurchase of treasury stock	34,349	-
Net cash (Used In) Financing Activities	<u>(146,238)</u>	<u>707,317</u>
Net increase in cash and cash equivalents	240,805	(484,740)
Cash and cash equivalents at beginning of year	234,594	719,334
Cash and cash equivalents at end of year	<u>\$ 475,399</u>	<u>\$ 234,594</u>

(The accompanying notes are an integral part of the parent company only financial statements)

MPI CORPORATION and its Subsidiaries

Notes to parent company only financial statements

January 1 to December 31, 2016 and 2015

(Expressed in NT\$1,000, Unless Otherwise Noted)

1. Company profile

- (1) MPI Corporation (hereinafter referred to as the "Company") was founded according to the Company Law and other related laws on July 25, 1995. Upon capital increase for several times, the Company's paid-in capital has been NT\$796,054 thousand and outstanding stock has been 79,605,392 shares until December 31, 2016. Upon resolution of the special shareholders' meeting on December 28, 2006, the Company raised the authorized capital as NT\$1,000,000,000, divided into 100,000,000 shares at par value of NT\$10 per share. The board of directors is authorized to issue the stock in lots. NT\$50,000 thousand is withheld from the gross capital referred to in the preceding paragraph, divided into 5,000,000 shares at par value of NT\$10 per share, available for the subscription by exercise of stock warrants and issued upon resolution of a directors' meeting.
- (2) The Company and its subsidiaries (hereinafter referred to as the "Group" collectively) primarily engage in manufacturing, processing, maintenance, import/export and trading of semi-conductor production process and testing equipments.
- (III) The Company was approved to initiate the IPO in July 2001, and started to trade on Taiwan Stock Exchange as of January 6, 2003.

2. Date and procedure for ratification of financial report

The parent company only financial statement was passed by the Board for release on March 24, 2017.

3. Application of new standards, amendments and interpretations

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRSs") as endorsed by Financial Supervisory Commission ("FSC")

None.

- (2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact of amended IFRS applied on 2017 will have on the financial position and financial performance of each period, and will disclose the relevant impact when the assessment is completed.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the 2017 version of IFRSs as endorsed by the FSC:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 ‘Financial instruments’ with IFRS 4 ‘Insurance contracts’ (amendments to IFRS 4)	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective date to be determined by IASB
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2017

Clarifications to IFRS 15, “Revenue from contract with customers”	January 1, 2018
IFRS 16 Leases	January 1, 2019
Amendment to IAS 7 Disclosure Initiative	January 1, 2017
Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, ‘ First-time adoption of international financial reporting standards’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, ‘ Disclosure of interests in other entities’	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, ‘ Investments in associates and joint ventures’	January 1, 2018

The Company is currently evaluating how the above standards and interpretations would affect its financial position and business performance. Further impacts will be disclosed once the evaluation is completed.

4. Summary of Significant Accounting Policies

The important accounting policies applied by the financial statements are summarized as follows: Unless otherwise provided, the following accounting policies have been applied during the presentation period of the consolidated financial statements.

(1) Statement of compliance

This separate financial statement is prepared in accordance with the “Criteria for the Compilation of Financial Statements by Securities Issuers”.

(2) Basis for preparation

A. Basis for measurement

With the exception of the following items contained in the balance sheet, the company prepared its financial statements on the basis of historical cost:

- (a) Financial instruments at fair value through profit or loss (including derivative financial instruments):
- (b) Available-for-sale financial assets measured at fair value;
- (c) Defined benefit liability stated based on the net after pension fund assets less the present value of defined benefit obligations.

B. Functional currency and presentation of currency

The currency circulated in the economic environment of its principal place of business shall be the functional currency. NTD is the functional currency denomination in this separate financial statement. Unless otherwise noted, all of the

financial information presented in NTD should be held presented in NTD 1,000 as the currency unit.

(3) Foreign currency

A. Foreign currency transactions

The foreign currency exchange shall be stated at the functional currency translated at the exchange rate prevailing on the date of transaction. The monetary items denominated in the foreign currency on the reporting date shall be stated at the functional currency translated at the exchange rate on the same day. The exchange gain or loss refers to the difference between the amounts upon adjustment of the valid interest, payment on the same period based on the amortized cost denominated in the functional currency, the amount translated from the amortized cost denominated in foreign currency at the exchange rate on the reporting date. The non-monetary items at fair value denominated in foreign currency shall be stated at the functional currency re-translated at the exchange rate prevailing on the same date of fair value measurement, while the non-monetary items at historical cost denominated in foreign currency shall be stated at the functional currency translated at the exchange rate on the date of transaction. Other than the foreign currency exchange difference generated from the translation of available-for-sale financial assets, financial liabilities designated as net investment hedge for foreign operations or qualified cash flow hedging, which shall be stated as other comprehensive income, any difference shall be stated as income.

B. Foreign operations

Assets and liabilities of foreign operations, including the goodwill and fair value adjustment generated at the time of acquisition, shall be translated into functional currency at the exchange rate prevailing on the reporting date. Unless in the case of inflation, the income and expense & loss items shall be translated into functional currency at the average exchange rate in the current period, and the exchange different generated therefore shall be stated as other comprehensive income.

When disposition of foreign operations results in loss of control, common control or any material effect, the accumulated exchange difference related to the foreign operations shall be reclassified into income in whole. If the disposition involves any subsidiary of the foreign operations, the relevant accumulated exchange difference shall be reclassified into the non-controlling interests on a pro rata basis. If the disposition involves any affiliate or joint venture of the foreign operations, the relevant accumulated exchange difference shall be reclassified into income on a pro rata basis.

If no repayment program is defined with respect to receivable or payable items of foreign operations denominated in currency and it is impossible to repay the same in the foreseeable future, the foreign currency exchange gain or loss generated

therefore shall be held a part of the net investment in the foreign operations and stated as other comprehensive income.

(4) Current and non-current assets and liabilities

Assets which meet one of the following conditions shall be classified into current assets, and any assets other than the current assets shall be classified into noncurrent assets:

- A. Assets expected to be realized, or intent to be sold or consumed, in the Company's normal operating cycle;
- B. Assets primarily held for the purpose of trading;
- C. Assets expected to be realized within 12 months after the date of the balance sheet;
- D. Cash or cash equivalent, exclusive of the assets to be used for an exchange or to settle a liability, or otherwise remain restricted at more than 12 months after the date of the balance sheet.

Liabilities which meet one of the following conditions shall be classified into current liabilities, and any liabilities other than the current liabilities shall be classified into noncurrent liabilities:

- A. Liabilities expected to be repaid in the Company's normal operating cycle;
- B. Assets primarily held for the purpose of trading;
- C. Assets expected to be discharged within 12 months after the date of the balance sheet; and
- D. Liabilities of which the Company does not have an unconditional right to defer settlement for at least 12 months after the date of the balance sheet. Terms of a liability that could, at the option of the counterpart, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash and cash equivalent

Cash or cash equivalent include cash on hand, demand deposits, and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The bank time deposits to initially expire within one year are intended to satisfy the short-term cash commitment instead of investment or others, which may be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value and, therefore, are stated as cash or cash equivalent.

(6) Financial instruments

Financial assets and financial liabilities shall be recognized at the time the company becomes a contracting party of the terms and conditions of the financial instruments concerned:

A. Financial assets

The Company's financial assets shall be classified as: financial assets at fair value through profit or loss, financial assets available for sale, financial assets

held-to-maturity, and receivables.

(a) Financial instruments at fair value through profit or loss

Such assets mean the financial assets held for trading or designated to be measured at fair value through profit or loss.

The financial assets held for trading are acquired or incurred principally for the purpose of sale in the near term or repurchase. Financial assets other than those held for trading are measured at fair value through profit and loss if they meet any of the following conditions:

The performance of financial assets is evaluated based on fair value:

Financial instrument with embedded derivatives.

Such financial assets are measured at fair value at the time of initial recognition. The relevant transaction costs shall be stated as income when they are incurred. The following measurement shall be based on fair value, and then the gain or loss generated therefore should be measured (including the relevant stock dividend revenue and interest revenue) and recognized as income and stated as non-operating revenue and expenses. The purchase or disposal of financial instruments in customary transactions shall be subject to accounting on the date of transaction.

If the financial assets are the equity investments without public market price and the fair value of which cannot be reliably measured, they should be measured at the cost less the impairment loss and stated as “financial asset measured at cost”.

(b) Account receivables

Accounts receivables refer to financial assets without a public market price available but with fixed or determinable payments, including accounts receivable and other receivables. The loans and accounts receivable shall be initially evaluated based on fair value, plus the directly attributable transaction cost. The subsequent measurement shall be based on the amortized cost using effective interest method less impairment, unless the recognition of the interest on short-term accounts receivable is insignificant.

(c) Impairment on financial assets

The impairment on any financial assets other than financial assets at fair value through profit or loss shall be evaluated on each reporting date. If there is any objective evidence showing that the future cash flow of the financial assets is impaired due to a single or multiple events occurring after the initial recognition of the financial assets, the financial assets should be deemed impaired.

The objective evidence about impairment on financial assets include obvious financial problems confronting the issuer or debtor, breach (e.g. overdue or non-performance of interest or principal payment), the debtor likely to wind up

or proceed with other financial reorganizations, and the active market of financial assets extinguishing due to financial difficulty.

For some accounts receivable was held unimpaired upon individual evaluation, the impairment should be evaluated on a combined basis again. Objective evidence implicating the portfolio of account receivables may include the experience of the company in collection in the past, the increase of delinquent payment beyond the average due dates of the portfolio, and national or regional economic downturn related to the receivables.

The recognized impairment loss on the financial assets measured at cost is the difference in the book value of financial assets and the present value after the projected cash flow is discounted at the rate of return on the similar asset market. The impairment loss cannot be reversed subsequently.

The impairment loss on financial assets should be deducted from the book value of financial assets, provided that the book value of accounts receivable is adjusted through allowance accounts. If the accounts receivable were held uncollectible, they should have been written off against the allowance accounts. The accounts initially written off but collected afterwards were credited into the allowance evaluation accounts. The changes in book value of allowance evaluation accounts were stated as income.

(d) Derecognition of financial assets

The company removes particular item of asset only at the termination of the contractual right of the cash flow of the asset, or the ownership of the financial asset is being transferred with all inherent risk and return transferred to other enterprises.

B. Financial liabilities and equity instruments

(a) Classification of liabilities or equity

The debt and equity instruments issued by the company are based on the definition of substantive and financial liabilities and equity instruments under the terms and conditions in the contracts for classification as financial liabilities or equity.

Equity instrument refers to any contract representing the equity of the company after deducting its assets by all liabilities. The equity instrument issued by the company shall be recognized by the payment net of the direct cost of issuance.

The compound financial instruments issued by the Company reflect that the holders own the convertible corporate bonds which may be converted into capital stock. The quantity of issued shares will remain unchanged, irrelevant with the change in fair value, if any.

The amount of elements of the compound financial instrument liability

recognized initially excludes the measurement on fair value of similar liability of the equity conversion option. The amount of elements of equity recognized initially is measured based on the price difference between fair value of the entire compound financial instrument and fair value of elements of liability. Any directly attributable trading cost shall be amortized to the elements of liability and equity on a pro rata basis subject to the book value of initial liability and equity.

Upon the initial recognition, the elements of compound financial instrument liability is measured based on the cost amortized under effective interest method. It is necessary to re-measure the elements of equity of compound financial instruments upon the initial recognition.

The interest and loss or gain related to financial liabilities should be recognized as income and stated into non-operating revenue and expenses.

The financial liabilities shall be re-classified into equity at the time of conversion, and no income is generated from the conversion.

(b) Financial instruments at fair value through profit or loss

Such assets mean the financial assets held for trading or designated to be measured at fair value through profit or loss.

The financial liabilities held for trading are acquired or incurred principally for the purpose of sale or repurchase in the near term or repurchase. Financial liabilities other than those held for trading are measured at fair value through profit and loss if they meet any of the following conditions:

The performance of financial assets is evaluated based on fair value.

Financial instrument with embedded derivatives

Such financial liabilities are measured at fair value at the time of initial recognition. The relevant transaction costs shall be stated as income when they are incurred. The following measurement shall be based on fair value, and then the gain or loss generated therefore should be measured (including the relevant interest expenses) and recognized as income and stated as non-operating revenue and expenses.

(c) Other financial liabilities

When recognizing the financial liabilities other than those held for trading and not designated to be measured at fair value through profit or loss (including short-term and long-term loans, accounts payable and other payables) initially, such liabilities shall be evaluated based on fair value, plus the directly attributable transaction cost. The following measurement shall be based on the cost after amortization under the effective interest rate method, unless the recognition of interest on short-term loan and accounts payable is of no importance. The interest expenses on asset costs, which are not capitalized,

should be stated as "financial cost" under the non-operating revenue and expenses.

(d) Derecognition of financial liabilities

Financial liabilities will be removed if the contractual obligation has been performed, canceled or expired.

(e) Offset of financial assets and liabilities

Financial assets and financial liabilities may be offset against each other only when the company has the legitimate right for offsetting and has the intent to make settlement in net value, or the simultaneous liquidation of assets and settlement of liabilities. The net value between the offsetting shall be presented in the balance sheet.

(7) Inventory

The inventories shall be stated at the lower of cost and net realizable present value. The cost should include the costs of acquisition, production or processing or others incurred when the inventory is sellable or producible and at the location where the inventory is sellable or producible, and calculated under weighted average method. The costs of inventories for finished goods and work in process include the manufacturing expenses amortized based on the normal productivity on a pro rata basis.

Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs under the normal operation.

(8) Investment in affiliates

Associates shall be the entities over which the company has significant influence over its financial and corporate policy but not to the extent of dominant control. The Group will be assumed having major influence when it holds 20%~50% of the voting right in the investee.

Under the equity method, the investment is stated at cost at time of acquisition initially. The investment includes trading cost. The book value of investment in affiliates includes the goodwill identified at the time of initial investment less any accumulated impairment loss.

Separate financial statement of individual entities shall present the income and other comprehensive incomes of respective associates in proportion to the investment by the company after the adjustment of the accounting policy in consistence with the company from the effective date to the expiration date during which the company exercises dominant power.

The unrealized gain deriving from the transactions between the company and the associates will be eliminated within the scope of equity of the company over the investee. The unrealized loss shall be derecognized in the same manner applicable to unrealized gains; provided that the unrealized loss is limited to that arises under no impairment evidence is available.

When the company recognizes the loss in proportion to its ownership of the associates is equal to or in excess of the equity of the company at the associates, stop further recognition for loss and shall be realized only within the scope of legal obligation, presumed obligation or has already effected payment in favor of the investee for recognition additional loss and related liabilities.

Where the Group forfeits its material influence over an affiliate when the Group disposes of the affiliate, the capital surplus related to the affiliate will be stated as income, provided that where it still has material influence over the affiliate, the capital surplus shall be stated as income based on the proportion of disposition.

(9) Investment in subsidiaries

In compiling the financial statements for the individual entities, the company shall value the investee of which the company has dominant control under the equity method. Under the equity method, income of current period and other comprehensive incomes as presented in the financial statement of the individual entity shall be identical with the income of current period and other comprehensive incomes attributable to the proportion allocated to the parent shareholder as presented in the financial statement prepared on the basis of consolidation. The shareholders' equity as presented in the financial statement of the individual entities shall be identical with the parent shareholders' equity as presented in the financial statement prepared on the basis of consolidation.

If the change in all shareholders' equities of the subsidiaries does not cause the loss of dominant control of the company, handled as equity transactions with the shareholders.

The subsidiary's financial statement shall be included into the consolidated financial statements as of the date of acquisition of the control is acquired, until the date of loss of the control.

(10) Property, plant and equipment

A. Recognition and measurement

Property, plant and equipment shall be recognized and measured using a cost model, and measured at the cost less accumulated depreciation and accumulated impairment. The costs include the expenses directly attributable to the acquisition of assets. The costs of self-built assets include the costs of raw materials and direct labor, any other costs directly attributable to usable status of investment assets, costs of dismantling and removal of the items and recovery of premises, and loan cost that meets the requisite asset capitalization. Meanwhile, the costs also include the purchase of property, plant and equipment denominated in foreign currency.

When property, plant and equipment consist of various components, and the total cost for the item is significant and it is advisable to apply different depreciation ratio or methods, the property, plant and equipment should be treated separately (for major components).

The gain or loss on disposal of property, plant and equipment shall be decided based on the price difference between the book value of property, plant and equipment and proceeds on disposal of the same and recognized as the “other gains and losses” in the income statement on a net basis.

B. After cost

If the anticipated economic benefits of subsequent spending on real properties, plant and equipment probably inflow into the company and the amount can be reliably measured, recognize the spending as a part of the book value of this title and the book value of replacement shall be removed. The routine maintenance and repairs of property, plant and equipment shall be stated as income when incurred.

C. Depreciation

The depreciation shall be calculated at the cost of assets less residual value using the straight-line method over the estimated useful years, and evaluated based on the various major components of the assets. If the useful years for any component are different from those of other components, the component shall be depreciated separately. The depreciation shall be stated as income.

No depreciation of land is required.

The estimated useful years in the current period and comparative period are stated as follows:

Item	Useful years
House and building	
Plant and dormitory	50
Clean room	20
Electrical and mechanical facilities	20
Others	10-20
Machine & equipment	5-13
Transportation equipment	5
Furniture and fixtures	5-6
Research equipment	2-13
Other equipments	5-9

D. Depreciation, useful years and residual value shall be reviewed at the end of each fiscal year. If the expected value is different from the previous estimate, adjustment should be made if necessary, and the changes shall be treated as changes in accounting estimates.

(11) Lease

A. None of the Company's lease terms and conditions has transferred the risk and return attached to the title of assets to the lessee. All of the leases are classified as operating leases. The income from lease shall be stated as income based on the straight line method within the related lease period. The lease payment shall be stated as expenses

based on the straight line method within the related lease period. The contingent rent under operating lease shall be stated as expenses when it is incurred.

- B. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(12) Intangible assets

A. Goodwill

Where the acquisition cost of identifiable net assets acquired upon merger, if any, is more than the fair value of the assets, the excess shall be stated as goodwill. Goodwill shall be measured at cost less accumulated impairment.

For the investment under equity method, the face value of goodwill is included into that of the investment. Meanwhile, the impairment loss on such investment is not allocated to goodwill or any assets, but a part of the book value of the investment under equity method.

B. Software

Software is amortized over 2~5years on a straight-line basis.

C. Internally generated intangible assets—research and development expenditures

(a) Research expenditures are recognised as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:

- Ⓐ It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Ⓑ An entity intends to complete the intangible asset and use or sell it;
- Ⓒ An entity has the ability to use or sell the intangible asset;
- Ⓓ It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Ⓔ Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; And
- Ⓕ The expenditure attributable to the intangible asset during its development can be reliably measured.

(13) Impairment on non-financial assets

- A. The Company will estimate the recoverable amount of the assets which show signs of impairment on the balance sheet date, and impairment loss would be recognized if the recoverable amount falls below the asset's face value. The recoverable amount means the higher of fair value of one asset less its disposition cost, or its useful value. Impairment loss recognized in previous years on assets other than goodwill may be reversed if the basis of impairment no longer existed or is reduced. Notwithstanding, the increase in book value of the asset resulting from the reversal must not exceed the face value of the asset less depreciation or amortization

without impairment.

- B. The recoverable amount of goodwill, intangible assets with indefinite useful years and intangible assets not available for use shall be estimated periodically. Impairment loss would be recognized if the recoverable amount falls below the face value. The impairment loss on goodwill shall not be reversed in following years.
- C. Goodwill shall be amortized to cash generation unit for the purpose of testing impairment. The amortization is identified by operations to amortize goodwill into cash generation unit or cash generation unit group expected to benefit from the merger of businesses generating the goodwill.

(14) Reserve for liabilities

The recognition of provision for liabilities is the current obligation of past events to the extent that the company may have to outflow resources of economic benefit in the future to perform the obligations and the amount of such obligation could be assessed with reliability.

The Company reserve for liabilities for warranty shall be recognized when the goods or services are sold. The reserve for liabilities shall be measured under weighted method based on the historical warranty information and potential results subject to the relevant possibility.

(15) Treasury stock

The proceeds (including the payment directly attributable to the cost) for the repurchase of company shares by the company shall be recognized as “treasury shares” net of applicable taxes, and as a debit item of equity. Where the gain on disposal of treasury stock is higher than the book value, the difference shall be credited under the title “additional paid-in capital-transaction of treasury stock”. Where the gain is lower than the book value, the difference is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. The book value thereof is calculated based on the weighted average method according to the type of stock (common stock or special shares) and causes for the withdrawal.

Cancellation of treasury stock shall be credited under the title “treasury stock”, and debited as “additional paid-in capital-stock premium” and “capital stock”. Where the book value of treasury stock is higher than the total of the book value and stock premium, the balance is offset against the additional paid-in capital generated from the transactions of treasury stock under the same type. Any deficits thereof shall be debited as retained earnings. Where the book value of treasury stock is lower than the total of the book value and stock premium, the difference should be credited as the additional paid-in capital generated from the transactions of treasury stock under the same type.

(16) Recognition of revenue

A. Sale of products

The revenue generated from sale of goods in normal activities is stated at the fair value of received or receivable consideration after taking the sale returns, sales discount and quantity discount into consideration. The revenue shall be recognized when there is persuasive evidence (normally an executed sale agreement), major risk and return over the ownership are transferred to the buyer, it is very likely to collect the payment, the related cost and possible sale return may be estimated reliably, participation in management of products is discontinued and revenue may be measured reliably. If a discount is likely to be incurred and the amount thereof may be measured reliably, it shall be stated as deduction from revenue when the sale is recognized.

The timing of transfer of risk and return shall be subject to the individual provisions in the sale agreement.

B. Labor service

The revenue generated from provision of labor services shall be recognized based on the progress in completion of the transaction on the reporting date.

C. Revenue from commission

If the company acts as an agent but not consignee, the income shall be recognized on the basis net commission incomes.

D. Rent revenue

The income from sublease of the real property shall be stated as "rent revenue" under non-operating revenue and expenditure.

The calculation method based on the lease agreement agreed by both parties within the lease term recognized as Revenue.

E. Dividend revenue

If the company is entitled to dividend, recognized as dividend income if realized.

(17) Cost of borrowing

A. Loans shall be measured based on the fair value less trading cost at the time of initial recognition. The subsequent measurement of any difference between the price (less trading cost) and redemption value shall be stated at the amortized cost under effective interest method within the borrowing period.

B. When it is very likely to withdraw the expenses paid for setting the borrowing limit, in part or in whole, the expenses shall be stated as the trading cost for the loan, deferred and stated as effective interest adjustment when the loan is drawn down. When it is not likely to withdraw the expenses, in part or in whole, the expenses shall be stated as prepayment and amortized within the period related to the limit.

(18) Government subsidies

The government subsidies shall be stated at fair value when it is reasonable to ensure

that an enterprise will comply with the conditions incident to the government subsidies and the subsidies may be received affirmatively. If the nature of government subsidy is the compensation of the expenses of the company, recognize at profits and loss accounts in current period in the period of the realization of related expenses under systematic government subsidy.

(19) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at non-discounted amount expected to be paid, and stated as expenses when the relevant services are provided.

B. Pension

(a) Defined contribution plan

Under the defined contribution plan, every contribution made to the pension fund is recognized as pension cost in the period occurred using the accrual basis. The prepaid contribution may be stated as assets, insofar as it may be refunded in cash or the future payment is reduced.

(b) Defined benefit plan

Ⓐ The net obligation under the defined benefit pension plan is converted to the present value based on the future benefit earned from the services provided by the employees under various benefit plans in the current period or in the past, and the present value of defined benefit obligations on the balance sheet date less the fair value of the planned assets. An actuary using the Projected Unit Credit Method estimates defined benefit obligations each year. The discount rate shall be based on the market yield rate of corporate bonds of high credit standing that have the same currency exposure and maturity date as the obligations on the balance sheet date, but the market yield rate of government bonds (on the balance sheet date) shall apply in the country where no market of corporate bonds of high credit standing is available.

Ⓑ The re-measurement generated from the defined benefit plan is stated as other comprehensive income in the period when it is incurred, and presented in the retained earnings.

Ⓒ The expenses related to the service cost in the previous period shall be recognized as income immediately.

Ⓓ The interim pension cost applied the pension cost ratio decided upon actuation at the end of the previous fiscal year, and was calculated from the beginning of year until the end of the current period. In the case of material changes in market and material reduction, repayment or other important event at the end, it shall be adjusted and related information shall be disclosed pursuant to said policies.

C. Resignation benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company will not state the benefits as expenses until the offer of benefits cannot be withdrawn or the related reorganization cost is stated, whichever earlier. It is not expected that benefits falling due more than 12 months after balance sheet date are discounted to their present value.

D. Remuneration to employee and directors/supervisors

The remuneration to employees and directors/supervisors shall be recognized as expenses and liabilities only when legal or constructive obligation is constituted and the value thereof may be estimated reasonably. Subsequently, if the actual distributed amount resolved is different from the estimate, the difference shall be treated as a change in accounting estimate.

(20) Employees' share-based payment

The transaction is share-based payment for settlement of equity. The share-based payment agreement shall measure the labor services provided by employees based on the fair value of the equity instruments granted on the date of granting, which shall be recognized as the remuneration cost during the vested period, and the equity shall be adjusted relatively. The fair value of equity instruments shall reflect the effect produced by the vested conditions and non-vested conditions of market value. The recognized remuneration cost is adjusted based on the quantity of remuneration expected to meet service conditions and non-market value vested conditions, until the amount recognized ultimately is measured based on the vested quantity on the vested date.

(21) Income tax

- A. The income tax expenses consist of current income tax and deferred income tax. The income tax shall be stated as income other than the income tax related to the titles stated into other comprehensive incomes or into equity directly, which shall be stated into other comprehensive income or into equities directly.
- B. The Company calculates the income tax related to the current period based on the statutory tax rate or tax rate substantially enacted in the countries where the Company is operating and generating taxable income on the balance sheet date. The management shall evaluate the status of income tax return within the statutory period defined by the related income tax laws, and shall be responsible for the income tax expected to be paid to the tax collection authority. Undistributed earnings, if any, shall be levied 10% income tax. 10% income tax expenses for undistributed earnings will be stated in the year next to the year when the earnings are generated, upon approval of the motion for allocation of earnings at a

shareholders' meeting.

- C. Deferred tax is stated based on the temporary differences between taxation basis for assets and liabilities and the face value thereof on the consolidated balance sheet using the balance sheet method. The deferred income tax liabilities resulting from the initial recognition of goodwill shall not be recognized. The deferred income tax resulting from the initial recognition of assets or liabilities in a transaction (exclusive of business merger) shall not be recognized, insofar as the accounting profit or taxable income (taxable loss) is not affected by the transaction. Taxable temporary difference generated from investment in subsidiaries and affiliates, of which the time of reverse is controllable by the Company and which is not likely to be reversed in the foreseeable future, shall not be recognized. The deferred income tax assets and liabilities are measured at the tax rate in the current period of which the assets are expected to be realized or liabilities to be repaid. The tax rate shall be based on the tax rate and tax laws already legislated or substantially legislated at the end of the reporting period.
- D. Deferred income tax assets shall be recognized, insofar as temporary difference is very likely to credit against future taxable income, and deferred income tax assets which are recognized and unrecognized shall be re-evaluated on each balance sheet date.
- E. Current income tax assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. Unused tax credits derived from purchase of equipment or technology, R&D expenditure and equity investment can be added to deductible temporary differences and recognized as deferred tax assets, to the extent that the Company is likely to earn taxable income to offset against.
- G. The average effective tax rate used to estimate the interim income tax expenses shall apply to the interim income before tax, and the relevant information shall be disclosed pursuant to said policies.

(22) Business combination

- A. The Company adopts the acquisition method to proceed with business combination. The consideration for combination is calculated at the fair value of the assets to be transferred or liabilities to be derived or borne and the equity instruments to be issued. The consideration for the transfer includes the fair value of any assets and

liabilities generated from the contingent consideration agreement. The cost related to acquisition is stated as expense when it is incurred. The identifiable assets and liabilities acquired from the business combination shall be measured at the fair value on the day of acquisition. Based on individual acquisition transaction, the elements of non-controlling equity which refer to the current ownership, of which the holder is entitled to the business's net assets on a pro rata basis at the time of liquidation may choose to measure the fair value based on the fair value on the date of acquisition or subject to proportion of non-controlling equity in the acquired identifiable net assets. The other elements of non-controlling equity shall be measured at the fair value on the date of acquisition.

- B. Goodwill arises when the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held exceeds the fair value of identifiable assets and liabilities. The price difference shall be stated as income on the date of acquisition if the fair value of identifiable assets and liabilities as acquired exceeds the transfer consideration, non-controlling equity of the acquiree, and the total fair value of the acquiree's equity already held.

(23) EPS

The company displays the basic and diluted earnings per share of the bearers of common shares. The basic earnings per share of the company are based on the income attributable to the bearers of common shares divided by the weighted average outstanding quantity of shares. The diluted earnings per share are based on the income attributable to the bearers and the weighted average quantity of outstanding shares adjusted for possible effect of potential dilution of common shares. The potential dilution of common shares of the company includes the employee stock options.

(24) Information by department

The company has already disclosed the information on the segments in the consolidated financial statements and no disclosure of segments will be made in the financial statement of individual entities.

5. **Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty**

The accounting estimate performed by the company is based on the reasonable expectation on possible events in the future in circumstances as of the balance sheet date. However, the actual result may vary with the estimate. The following explains the estimate and assumption of the risk of possible major adjustment of the book value presented in the assets and liabilities in the next fiscal year:

(1) Allowance for bad debt of receivable accounts

The company conducts assessment on the recoverability of account receivables on the basis of the credit quality of the customers and the collection of the accounts and the

experience of bad debts in the past and estimates for the provision of doubtful accounts. If some event or change resulting in failure to collect the debt shows, it is necessary to estimate the allowance for bad debt. If the projected collected cash is different from the estimation, the difference will affect the book value of receivable accounts and bad debt expenses in the year in which the estimation is changed. Until December 31, 2016, the book value of receivable accounts has been NT\$728,474 thousand (exclusive of the allowance for bad debt, NT\$6,462 thousand).

(2) Evaluation of inventory

Inventory shall be evaluated on the basis of the lower the cost and net realizable value. As such, the company must make judgment and estimate the net realizable value of the inventory on the balance sheet date. Rapid technological change compels the company to assess the amount of normal wearing out and phasing out of inventory or inventory with no market price and write off the cost of inventory from net realizable value. Until December 31, 2016, the book value of the Company's inventories has been NT\$1,920,323 thousand (exclusive of the allowance for inventory devaluation and obsolescence loss, NT\$212,012 thousand)

(3) Realizability of deferred income tax assets

Deferred income tax assets shall be recognized only when it is very likely that there will be sufficient taxable income afford to deduct temporary difference. To evaluate the realizability of deferred income tax assets, the management has to exert judgment and estimation, including the hypotheses about expectation toward growth and profit rate of future sale revenue, applicable income tax credit and taxation planning. The transformation of global economic environments and industrial environments and changes in laws and regulations, if any, might result in material adjustment on deferred income tax assets. As of December 31, 2016, the Company had deferred income tax assets amounting to NT\$62,330 thousand.

(4) Recognition of revenue

In principle, sale revenue is recognized at the time the earning process. The related reserve for liabilities is provided based on the estimated after-sale warranty cost potentially incurred due to historical experience and other known causes, and stated as the sale cost in the period in which the product is sold. The reasonableness of estimation is also reviewed periodically. As of December 31, 2016, the Company recognized provision for liabilities amounted to NT\$2,595 thousand.

(5) Calculation of net defined benefit liability

In the calculation of the determined welfare obligation, the company must make use of judgment and estimate to determine relevant actuarial assumption on the balance sheet date, including the discount rate and growth of future salary. Any change in the actuarial assumption will affect the amount of determined welfare obligation of the company. As of December 31, 2016, the book value of accrual pension liabilities of the Company

amounted to NT\$27,454 thousand.

(6) Goodwill impairment evaluation

The impairment on goodwill is evaluated by the Company to its sole discretion, including identifying the cash-generating units and amortizing assets, liabilities and goodwill into the related cash-generating units, and deciding the recoverable amount of related cash-generating units. For the evaluation on goodwill impairment, please refer to Note 6(6). As of December 31, 2016, the book value of the Company's goodwill amounted to NT\$0 thousand.

6. Notes to Major Accounting Titles

(1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash:		
Cash on hand	\$ 3,193	\$ 2,556
Bank deposit:		
Check deposit	-	-
Foreign currency deposit	30,534	31,800
Demand deposit	441,672	200,238
Time deposit	-	-
Total	<u>\$ 475,399</u>	<u>\$ 234,594</u>

Bank deposits pledged by the company to the bank as collaterals have been recognized under the title of other current assets. Please refer to Note 8.

(2) Note receivables, net

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Receivable notes	\$ 5	\$ 5,403
Less: Allowance for bad debt	-	-
Receivable notes, net	<u>\$ 5</u>	<u>\$ 5,403</u>
Note receivables –related parties	\$ -	\$ -
Less: Allowance for bad debt	-	-
Note receivables- related parties-net	<u>\$ -</u>	<u>\$ -</u>

The note receivables of the Company are accrued from business operation and have not been pledged as collaterals.

(3) Accounts receivable, net

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Receivable accounts	\$ 549,365	\$ 563,282
Less: Allowance for bad debt	(6,015)	(9,044)
Receivable accounts, net	<u>\$ 543,350</u>	<u>\$ 554,238</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Receivable accounts-related party	\$ 185,566	\$ 329,752
Less: Allowance for bad debt	(447)	(520)
Receivable accounts-related party, net	<u>\$ 185,119</u>	<u>\$ 329,232</u>

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Receivable on demand (stated as other non-current assets)	\$ —	\$ 51
Less: Allowance for bad debt	—	(51)
Receivable on demand, net	<u>\$ —</u>	<u>\$ —</u>

- A. All account receivables of the company are accrued from business operation and have not been pledged as collaterals.
- B. For the information about the changes of bad debt provided for the impairment on receivable accounts and account age analysis on loans (for the disclosure of credit risk, please see Note 12(2)):

	Group evaluation Impairment loss	Individual evaluation Impairment loss	Total
January 1, 2016	\$ 9,615	—	\$ 9,615
Impairment loss provided in the current period	—	—	—
Impairment loss reversed in the current period	(235)	—	(235)
Accounts written off and uncollected in the current period	(2,918)	—	(2,918)
December 31, 2016	<u>\$ 6,462</u>	<u>—</u>	<u>\$ 6,462</u>
January 1, 2015	\$ 5,966	\$ 15,947	\$ 21,913
Impairment loss provided in the current period	3,649	—	3,649
Impairment loss reversed in the current period	—	—	—
Accounts written off and uncollected in the current period	—	(15,947)	(15,947)
December 31, 2015	<u>\$ 9,615</u>	<u>—</u>	<u>\$ 9,615</u>

- C. Account age analysis on loans is stated as follows:

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	Total	Impairment	Total	Impairment
Undue	\$662,722	\$ -	\$814,637	\$ -
Overdue for 1~90 days	58,891	4,122	59,422	4,160
Overdue for 91~180 days	9,906	1,486	12,015	1,802
Overdue for 181~360 days	3,417	854	10,316	2,579
Overdue for 1~2 years	—	—	2,047	1,023
Overdue for more than 2 years	—	—	51	51
Total	<u>\$734,936</u>	<u>\$ 6,462</u>	<u>\$898,488</u>	<u>\$ 9,615</u>

(4) Inventories

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Raw material	\$ 343,385	\$ 345,245
Supplies	76,147	67,712
Work in progress	336,890	287,695
Semi-finished goods	280,973	212,380
Finished goods	1,060,108	859,780

Commodity	24,516	24,300
Materials and supplies in transit	10,316	17,012
Less: Allowance for inventory devaluation and obsolescence losses	(212,012)	(223,290)
Inventory, net	<u>\$ 1,920,323</u>	<u>\$ 1,590,834</u>

A. Expenses and losses related to inventory recognized in the current period:

	<u>2016</u>	<u>2015</u>
Cost of sold inventory	\$ 2,260,958	\$ 2,021,559
Allowance for inventory devaluation and obsolescence losses (revaluation gains)	(11,277)	37,175
Inventory retirement loss	5,478	3,814
Other operating cost - employee remuneration	33,375	14,738
Estimated maintenance and warranty cost	3,283	(670)
Sale cost, net	<u>\$ 2,291,817</u>	<u>\$ 2,076,616</u>

B. Before December 31, 2016 and 2015, the Company had not pledged its inventory as collaterals.

(5) Financial assets measured at cost

The financial assets on the basis of cost held by the Company on the financial reporting day are shown below:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Noncurrent items:		
TAISelec Co.,Ltd	\$ —	\$ 20,231
Less: Impairment loss	—	—
Total	<u>\$ —</u>	<u>\$ 20,231</u>

- A. The investment of the company in stocks not listed in TWSE or GTSM could be classified as financial assets available for sales by intent of investment. However, the subject of investment has not active market for open trading and has no sufficient industry information on similar company and related financial information on the investees that no reasonably measurement of its fair value. As such, the company classified the asset as “financial assets on the basis of cost”.
- B. The Company transferred 18.75% of the equity of TAISelec Co., Ltd. to the non-related party upon approval of the board of directors in February 2015. The proceeds from sale was NT\$25,938 thousand, and the gain from disposition was NT\$5,706 thousand.
- C. As of December 31, 2016 and 2015, the Company had not pledged its financial assets on the basis of cost as collaterals.

(6) Investments accounted for using equity method

The investment of the company accounted for under the equity method on the ending day of the financial reporting period:

Investee	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	Book value	Ratio of shareholding %	Book value	Ratio of shareholding %
Subsidiaries:				
MPI TRADING CORP.	\$ 58,433	100 %	\$ 53,601	100 %

MMI HOLDING CO., LTD.	491,142	100 %	476,494	100 %
MEGTAS CO.,LTD.	19,074	60 %	23,351	60 %
Chain-Logic International Corp.	234,712	100 %	230,787	100 %
Chia Hsin Investment Co., Ltd.	—	100 %	2,295	100 %
Yi Hsin Investment Co., Ltd.	—	100 %	2,295	100 %
Won Tung Technology Co., Ltd.	188	100 %	304	100 %
Allstron Corporation	2,496	100 %	48,253	100 %
Affiliates:				
Lumitek Co.,LTD	3,360	2.28 %	(139)	2.28 %
Total	<u>\$ 809,405</u>		<u>\$ 837,241</u>	

A. Changes in investment under equity method:

	<u>2016</u>	<u>2015</u>
Balance, beginning	\$ 837,241	\$ 624,026
Increase in investment in the current period	48,555	349,990
Disposal of investments for book value	(13,254)	—
Cash dividend distributed by affiliates	(5,000)	(22,700)
Transfer of treasury stock to subsidiaries' employees	1,331	—
Capital surplus - write-off of long-term investment	—	(19,306)
Investment income (loss) recognized under equity method	18,596	3,402
Exchange difference arising from translation of the financial statement of foreign operations	(57,049)	(13,899)
Realized (unrealized) income from downstream transactions with investees	23,501	(83,913)
Other comprehensive income – Actuarial income (loss) of determined welfare	1,017	(359)
Loss on valuation of nonfinancial asset	(45,533)	—
Balance, ending	<u>\$ 809,405</u>	<u>\$ 837,241</u>

B. The information about affiliates important to the consolidated companies is stated as following:

Refer to the consolidated financial statements of FY2016

C. The information about the Company is stated as following:

Name of Affiliate	Nature of relationship with consolidated company	Principal business place/country where the company is registered	Proportion of ownership and voting right		Measurement Method
			December 31, 2016	December 31, 2015	
Lumitek Co.,LTD	Primarily engaged in OEM service of LED dice production process; the affiliate has been dissolved on February 28, 2015. (The Company has gone into liquidation as of reporting date.)	Taiwan	20.15%	2.28%	Equity method

D. Book value and share of operating result of the affiliates not important to the Company individually

The financial information about the Company's affiliates under equity method not

important the Company individually is summarized as following. Said financial information refers to the figures included into the Company's separate financial statements:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Summarized total book value of the equity of individual unimportant affiliates	\$ 3,360	\$ (139)
	<u>2016</u>	<u>2015</u>
Shares attributed to the Company:		
Net profit (net loss) of continuing department	\$ —	\$ —
Income after tax of discontinued department	—	—
Other comprehensive income	—	—
Total comprehensive income	<u>\$ —</u>	<u>\$ —</u>

- E. For the year of 2016, apart from Lumitek Co., LTD. that has already applied for dissolution and is under the liquidation process (the Company has recognized the share of affiliated enterprise with the equity methods according to the invested company's non-CPA audited financial statements, and the Company's management believes that no major adjustment will be made to the said statements even after a CPA audit), the Company has recognized invested companies' shares of investment gains and losses with the equity methods according to their financial statements audited by CPA.

The Company recognized the income of these investees on the basis of their respective audited financial statements in proportion to the investment by the company accounted for under the equity method in 2015.

- F. The financial statements of subsidiary MEGTAS CO., LTD. in FY2016 and FY2015 were audited by other certified public accountants. We did not audit these statements and based on the statements audited by other certified public accountants to recognize investment (loss) amounting to (NT\$3,663) thousand and (NT\$1,018) thousand, respectively.
- G. The Group reinvested the affiliate, Lumitek Co., LTD, via its subsidiaries, Chia Hsin Investment Co., Ltd., Yi Hsin Investment Co., Ltd. and Chia Ying Investment Co., Ltd. So far, the Group held a total of 6,630,000 shares at par value of NT\$10 per share, and until December 31, 2015, the Company's shareholding is 17.87%. By resolution of the board of directors on May 11, 2016, the Group would sell 17.87% of LUMITED Corporation's equity shares owned by its three subsidiaries (JIA-SIN INVESTMENT CORP., YI-SIN INVESTMENT CORP. and JIA-YING INVESTMENT CORP.) to ultimate parent company, MPI CORPORATION, which was in the event of liquidation. According to the legal interpretation of Ministry of Economic Affairs, original shareholders have the right to transfer their shares to others during company liquidation and it does not violate corporate law. The Group

has migrated and integrated in MPI CORPORATION, and the Uni-President Enterprises Corporation deal with the proportional distribution of LUMITED CORPORATION of residual property claims request. It is unnecessary to keep the three subsidiaries in operation after their equity shares of LUMITED CORPORATION were all transferred. Therefore, the three subsidiaries were closed down.

- H. The Company has acquired 843,968 shares of stock issued by Lumitek Co., LTD in April 2013 at the cost of NT\$1,976 thousand and has acquired 6,630,000 shares of stock at the cost of NT\$16,575 thousand. : As of December 31, 2016 and 2015, the Group held 7,473,968 shares or 20.15% of the shares issued by Lumitek Co., LTD and is accounted for under the equity method.
- I. The Company acquired 100% of the shares of Allstron Corporation ("Allstron") in March 2014 and controlled the company in whole. Allstron is a probe card manufacturer engaged in high-frequency wafer measurement primarily. Acquisition of the control over Allstron enabled the Company to improve the Company's production process via Allstron's patented technology. Meanwhile, the Company secured the acquiree's clientele via the acquisition. Accordingly, the Company is expected to increase the Company's market shares of semi-conductor production process and testing equipment and products. The Company also expects to reduce the cost through the scale of economy.

The transfer consideration and the assets and liabilities recognized on the date of acquisition are stated as following:

- (a) Transfer consideration: NT\$50,000 thousand in cash
- (b) Fair values of identifiable net assets acquired on acquisition date: NT\$ 4,467 thousand dollars.
- (c) Goodwill

Goodwill recognized due to acquisition:

Transfer consideration	\$	50,000
Less: Fair value of identifiable net assets		(4,467)
Goodwill	\$	<u>45,533</u>

The goodwill arose from acquisition of Allstron primarily originated from the measurement application product lines in the electronic industry, such as high-frequency wafer measurement, related patented technology for wide-distance probe card measurement to meet the changeable needs in the electronic industry, and its employees' value. Meanwhile, the payment of transfer consideration was made as it was expected that consolidation synergy, growth of revenue and future market development may be generated from the integration of Allstron's and the Company's semi-conductor production process

and testing equipment businesses. Notwithstanding, as said benefits failed to meet the conditions for recognition of identifiable intangible assets and, therefore, were not recognized independently. No income tax effect was expected to be derived from the recognized goodwill.

The Company's goodwill arises due to merger and acquisition of the subsidiary. The transfer consideration was set based on the value of investment in Allstron calculated under income-based method referred to in the appraisal report issued by the expert. The income-based method applied Allstron's financial forecast for next five (5) years and estimated discount rate as the evaluation basis.

(d) Goodwill Impairment Charges

Upon the discussion of the management and report to the Board of Directors on March 24 of 2017, the Group has, according to the forecasted cash flow of Allstron Probing Solution, recognized the difference between the investment cost of the original investment day and the net equity value in the goodwill impairment loss with a value of NT\$45,533 thousand for the year of 2016.

(e) Goodwill Impairment Test

For the purpose of impairment test, goodwill acquired from amalgamation already amortized to cash generating units. The goodwill in account books is as follows:

	<u>Cash-generating units-Allstron</u>	
	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Goodwill	\$ —	\$ 45,533

Cash Generating Unit - Allstron

As Allstron has been evaluated as an independent cash generating unit at the end of December, 2016, its recoverable amount shall be decided according to its use value. Allstron's recoverable amount was measured according to its forecasted cash flow (in a five-year financial forecast approved by the management) applied with a discount rate; the forecasted growth of the sixth-year cash flow is zero and the demand for an increase of net working capital is zero. The cash flow forecast is already updated to reflect changes to the needs for relevant products; discount rate adopted for the cash flow forecast is based on the pre-tax value. The management already, according to the analysis results, recognized goodwill impairment loss with a value of NT\$45,533 thousand at the end of 2016.

Key Assumptions Used to Calculate Cash Generating Unit's Recoverable Amount

Ⓐ The forecast of cash flow is based on the past experience, past performance

and the five-year business plan with regard to the market development. The management believes that the forecast period, which is from 2017 to 2021, is reasonable.

- ⓑ The first-year revenue in the business plan is forecasted according to the past experience. Besides, the growth rate of forecasted annual revenue from 2018 to 2021 is based on the prediction of market performance. The management believes that such forecast is reasonable.
- ⓒ The gross margin in the business plan is forecasted based on the past experience and the management believes that such forecast is reasonable.
- ⓓ The purpose of applying a discount rate is to interpret risks to be taken over and required necessary returns for the future operation or use.

Values of these key assumptions represent the management's evaluation on Allstron's future trend and are based on both of external and internal information (historical information).

J. Guarantee

As of December 31, 2016 and 2015, the company had not pledged its investment accounted for under the equity method as collaterals.

(7) Property, plant and equipment

A. The changes in the cost, depreciations and impairments of the property, plant and equipment of the Company in FY2016 and FY2015:

	Land	House and building	Machine & equipment	Transportation equipment	Furniture and fixtures	Research equipment	Other equipments	Construction in progress	Total
Cost:									
January 1, 2016	\$ 763,767	\$ 1,263,213	\$ 599,352	\$ 1,320	\$ 85,913	\$ 559,288	\$ 19,116	\$ 52,106	\$ 3,344,075
Addition	-	20,908	35,421	-	9,538	13,544	80	60,728	140,219
Disposition	-	-	(40,290)	(1,320)	(21,806)	(19,462)	(5,002)	-	(87,880)
Transfer	-	69,999	78,145	-	536	31,402	-	(69,999)	110,083
December 31, 2016	\$ 763,767	\$ 1,354,120	\$ 672,628	\$ -	\$ 74,181	\$ 584,772	\$ 14,194	\$ 42,835	\$ 3,506,497
Cost:									
January 1, 2015	\$ 512,073	\$ 1,172,537	\$ 318,341	\$ 1,320	\$ 70,768	\$ 424,972	\$ 17,037	\$ 4,603	\$ 2,521,651
Addition	251,817	90,676	291,878	-	19,108	139,858	2,147	47,503	842,987
Disposition	(123)	-	(9,100)	-	(3,963)	(5,632)	(68)	-	(18,886)
Transfer	-	-	(1,767)	-	-	90	-	-	(1,677)
December 31, 2015	\$ 763,767	\$ 1,263,213	\$ 599,352	\$ 1,320	\$ 85,913	\$ 559,288	\$ 19,116	\$ 52,106	\$ 3,344,075
Depreciation and impairment:									
January 1, 2016	\$ -	\$ 188,641	\$ 228,502	\$ 623	\$ 47,334	\$ 273,019	\$ 10,881	\$ -	\$ 749,000
Depreciation	-	44,594	89,086	55	17,731	78,526	2,446	-	232,438
Disposition	-	-	(40,290)	(678)	(21,796)	(19,458)	(5,002)	-	(87,224)
Transfer	-	-	(105)	-	-	-	-	-	(105)
December 31, 2016	\$ -	\$ 233,235	\$ 277,193	\$ -	\$ 43,269	\$ 332,087	\$ 8,325	\$ -	\$ 894,109
Depreciation and impairment:									
January 1, 2015	\$ -	\$ 154,230	\$ 182,159	\$ 403	\$ 35,648	\$ 210,301	\$ 8,571	\$ -	\$ 591,312
Depreciation	-	34,411	55,356	220	15,476	68,322	2,378	-	176,163

Disposition	-	-	(9,013)	-	(3,790)	(5,604)	(68)	-	(18,475)
Transfer	-	-	-	-	-	-	-	-	-
December 31, 2015	\$ -	\$ 188,641	\$ 228,502	\$ 623	\$ 47,334	\$ 273,019	\$ 10,881	\$ -	\$ 749,000
Net book value									
December 31, 2016	\$ 763,767	\$ 1,120,885	\$ 395,435	\$ -	\$ 30,912	\$ 252,685	\$ 5,869	\$ 42,835	\$ 2,612,388
December 31, 2015	\$ 763,767	\$ 1,074,572	\$ 370,850	\$ 697	\$ 38,579	\$ 286,269	\$ 8,235	\$ 52,106	\$ 2,595,075

B. The Company purchased from the non-related party the land at Tai Ho Section, Zhubei City in July 2015. The total contract amount including necessary trading cost was NT\$251,817 thousand. The transfer registration was completed on September 24, 2015. Factory premises would be built on the land.

C. The Company purchased from the non-related party the land at Tai Ho Section, Zhubei City in December 2015. The total contract amount was NT\$123 thousand. The transfer registration was completed in December 2015.

D. Guarantee

For details about the secured long-term loan and facility until December 31, 2016 and 2015, please see Note 8.

E. For the capitalized interest, please see Note 6(17) 2. Financial cost.

(8) Intangible assets

The cost, amortization and impairment of intangible assets of the Company in FY2016 and FY2015 are shown below:

	Computer software		Computer software
January 1, 2016	\$ 35,739	January 1, 2015	\$ 23,490
Addition	22,402	Addition	26,809
Reclassification	—	Reclassification	1,248
Amortization expenses	(22,848)	Amortization expenses	(15,808)
December 31, 2016	\$ 35,293	December 31, 2015	\$ 35,739

A. Recognized amortization and impairment

The amortization expenses for intangible assets and other deferred expenses (stated as other noncurrent assets) 2016 and 2015 were stated as the following items in the comprehensive income statement:

	2016	2015
Operating cost	\$ 15,864	\$ 12,495
Operating expense	28,867	27,746
Total amortization expenses	\$ 44,731	\$ 40,241

B. R&D expenditure

In FY2016 and FY2015, the R&D spending deriving from intangible assets internally developed amounted to NT\$848,764 thousand and NT\$819,490 thousand, respectively, recognized under the title of "Operating expenses –R&D expenses" in the comprehensive income statement.

(9) Short-term loan

Nature of loan	December 31, 2016		December 31, 2015	
	Amount	Interest rate	Amount	Interest rate
Credit loan	\$ 180,000	0.92%	—	

Mortgage loan	200,000	1.00%	\$ 550,000	1.18%
Total	<u>\$ 380,000</u>		<u>\$ 550,000</u>	

1. For the information about exposure of the Company's interest rate and liquidity risks, please refer to Note 12(2).
2. Collateral for bank loan.

For bank loans secured by the Company's assets, please see Note 8.

(10) Other payable accounts

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Payable expenses	\$ 470,311	\$ 374,633
Payable employees' remuneration	61,660	28,640
Short-term employee benefits	53,632	33,884
Others (all less than 5%)	16,605	7,160
Total	<u>\$ 602,208</u>	<u>\$ 444,317</u>

(11) Reserve for liabilities

	<u>Warranty</u>		<u>Warranty</u>
Balance, January 1, 2016	\$ 1,240	Balance, January 1, 2015	4,856
Increase (decrease)	1,355	Increase (decrease)	(3,616)
Balance, December 31, 2016	<u>\$ 2,595</u>	Balance, December 31, 2015	<u>\$ 1,240</u>
Current	\$ 2,595	Current	\$ 1,240
Non-current	-	Non-current	-
Balance, December 31, 2016	<u>\$ 2,595</u>	Balance, December 31, 2015	<u>\$ 1,240</u>

The provision for warranty liabilities of the company in 2016 and 2015 was mainly related to the sales of semiconductor production process and test equipment. The provision for warranty liabilities is estimated on the basis of historical data on warranty. The Company expected most of the liabilities would be realized in the year after the sales.

(12) Corporate bonds-payable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total amount of 3rd domestic unsecured convertible corporate bond	\$ 700,000	\$ 700,000
Less: Conversion amount	(99,300)	(99,300)
Less: Corporate bond discount	(10,053)	(21,267)
Corporate bond payable, net	<u>\$ 590,647</u>	<u>\$ 579,433</u>
Current	\$ 590,647	\$ 579,433
Non-current	-	-
Total	<u>\$ 590,647</u>	<u>\$ 579,433</u>
Embedded financial derivatives - financial liabilities (assets)	<u>\$ (60)</u>	<u>\$ 1,682</u>
Elements of equity	<u>\$ 28,261</u>	<u>\$ 28,261</u>

- A. In order to purchase factory premises and machine & equipment and repayment of bank loan, the Company issued 3rd domestic unsecured convertible corporate bonds upon resolution of the board of directors on October 16, 2014, and upon

approval of FSC via its approval letter under Ching-Kuan-Chen-Fa-Tze No. 1030042656 dated November 4, 2014. The issuance conditions are stated as following:

- (a) Total issued amount: NT\$700 million
- (b) Duration: 3 years (November 18, 2014~November 18, 2017)
- (c) Coupon rate: 0%
- (d) Duration: The day following expiration of one month after the date of issuance (December 19, 2014) until the expiry date (November 18, 2017).
- (e) Conversion price and adjustment thereof:
 - Ⓐ The conversion price at the time of issuance shall be NT\$100 per share.
 - Ⓑ In the case of changes in shares of common stock (e.g. capital increase in cash, recapitalization of earnings and recapitalization from capital surplus, et al.); the conversion price shall be adjusted relatively.
 - Ⓒ The Company's board of directors resolved on August 7, 2015 to authorize the Chairman to issue 3rd domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 3rd Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of September 13, 2015, the Company's 3rd domestic unsecured convertible corporate bonds shall be adjusted as NT\$93.4 per share.
 - Ⓓ The Company's board of directors resolved on July 11, 2016 to authorize the Chairman to issue 3rd domestic unsecured convertible corporate bonds. According to Article 11 of the Company's Regulations Governing Issuance and Conversion of 3rd Domestic Unsecured Convertible Corporate Bonds, where the cash dividend of common stock to the market price per share is more than 1.5%, the conversion price shall be cut based on the cash dividend to the market price per share on the ex-dividend date. Upon verification, as of August 26, 2016, the Company's 3rd domestic unsecured convertible corporate bonds shall be adjusted as NT\$90.2 per share.
- (f) Bondholders' put option: The bondholders may exercise the put option of the bonds earlier on the record date for exercise of put option, namely, November 18, 2016, upon expiration of two years after issuance of the bonds. The bondholders may ask the Company to redeem the bonds at 100% of the book value thereof in cash within 40 days prior to the record date for exercise of put option.

- (g) The Company's right of redemption:
- Ⓐ From the date following expiration of one month upon offering of the bonds (December 19, 2014) until 40 days prior to expiration of the duration (October 9, 2017), if the closing price of the Company's common shares at Taipei Exchange exceeds the current conversion price by more than 30% for 30 consecutive business days, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.
 - Ⓑ From the date following expiration of one month upon offering of the bonds (December 19, 2014) until 40 days prior to expiration of the duration (October 9, 2017), if the balance of the outstanding bonds is less than 10% of the initial total issue price, the Company may exercise the call option to repurchase the bonds from the bondholders at the book value thereof in cash.
- (h) Date and method of repayment of principal: Except those converted to the Company's common stock by the bondholders according to the Regulations, or those redeemed upon exercise of the put option, or those redeemed by the Company earlier pursuant to the Regulations, or those repurchased by the Company from securities firms for cancellation, the others would be repaid in cash in full amount upon maturity.
- B. Until December 31, 2016, the book value of 3rd domestic unsecured convertible corporate bonds which have been converted upon request cumulatively was NT\$99,300 thousand. The issued stock totaled 993 thousand shares and the capital surplus-convertible corporate bond conversion premium generated was NT\$88,540.
- C. The Company analyzed the 3rd domestic unsecured convertible corporate bonds according to IFRS No. 7 and identified the bonds as the compound financial instruments. Therefore, the Company separated the conversion option from liabilities and stated it into equity and liability respectively.

	November 18, 2014
	(Issuing date)
Total issuing amount of convertible corporate bond	\$ 700,000
Cost of convertible corporate bond	(5,203)
Elements of equity at the time of issuance - conversion option	(32,933)
Embedded financial derivatives at the time of issuance	(980)
Corporate bond payable, net on the issuing date	<u>\$ 660,884</u>

The elements of equity were stated into capital surplus-stock option at the time of issuance. At the time of issuance, the fair value of embedded non-equity derivative was re-evaluated at the end of 2016, which was stated into the "financial asset (liability) held for trading". The "gain (loss) from financial assets and liabilities at fair value through profit or loss" was NT\$1,742 thousand and NT\$2,285 thousand

in 2016 and 2015.

The effective interest rate for the 3rd domestic unsecured convertible corporate bonds was 1.9183%. The interest expenses of convertible corporate bond recognized in 2016 and 2015 were NT\$11,214 thousand and NT\$11,032 thousand.

(13) Long-term Loans

Bank	Nature	Limit	Duration	December 31, 2016
Land Bank of Taiwan - Tunghsinchu Branch	Mortgage loan	\$ 201,100	2015/09/30~2020/09/30	\$ 201,000
Land Bank of Taiwan - Tunghsinchu Branch	Mortgage loan	\$ 163,000	2009/03/02~2022/03/02	48,968
Less: current portion				(9,328)
Total				<u>\$ 240,640</u>
Interest rate range				1.28 %~1.32 %

Bank	Nature	Limit	Duration	December 31, 2015
Land Bank of Taiwan - Tunghsinchu Branch	Mortgage loan	\$ 201,100	2015/09/30~2020/09/30	\$ 201,100
Land Bank of Taiwan - Tunghsinchu Branch	Mortgage loan	\$ 163,000	2009/03/02~2022/03/02	58,296
Less: current portion				(9,328)
Total				<u>\$ 250,068</u>
Interest rate range				1.49 %~1.53 %

- A. Information on the exposure of interest risk and liquidity risks of the company is shown in Note 12 (2).
- B. Collateral for bank loan.

The company pledged its assets under lien as collaterals for the security of loans from the banks. Related information is shown in Note 8.

(14) Pension Benefits

A. Defined benefit plan

- (a) The Company has established the regulation for retirement with welfare in accordance with the "Labor Standards Act", which is applicable to the years of service for full-time employees before the implementation of the "Labor Pension Act" on July 1 2005, and the employees continued to adopt the "Labor Standards Act" after the "Labor Pension Act" has come into effect. Employees who meet the retirement requirements will be paid the pension based on their years of service and average salary or wage of the last six (6) months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit is accrued for each additional year thereafter, up to a maximum of 45 units. The company contributes at 2% of the total salary on a monthly basis to the pension fund and deposit at the special pension account under the title of the Pension Reserve Monitoring Committee at the Bank of Taiwan. As of December 2016, the balance of the pension contribution in the special account

at the Bank of Taiwan amounted to NT\$47,506 thousand.

(b) The amount recognized in the balance sheet is stated as following:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Present value of defined benefit obligation	\$ 74,960	\$ 66,445
Fair value of planned assets	(47,506)	(43,220)
Net defined benefit liability	<u>\$ 27,454</u>	<u>\$ 23,225</u>

(c) Changes in the present value of defined benefit obligation:

	<u>2016</u>	<u>2015</u>
Present value of defined benefit obligation, January 1	\$ 66,445	\$ 56,911
Service cost in current period	5,128	125
Interest cost	1,196	1,149
Actuarial loss/gain		
Actuarial loss (gain) from changes of financial hypotheses	1,254	2,263
Empirical adjustment	937	5,997
Present value of defined benefit obligation, December 31	<u>\$ 74,960</u>	<u>\$ 66,445</u>

(d) Changes in fair value of planned assets:

	<u>2016</u>	<u>2015</u>
Fair value of planned assets, January 1	\$ 43,220	\$ 38,567
Interest revenue	811	807
Return (loss) on remuneration of planned assets	(491)	211
Contribution by employer	3,966	3,635
Benefit payment-from planned assets	-	-
Fair value of planned assets, December 31	<u>\$ 47,506</u>	<u>\$ 43,220</u>

(e) Total expenses recognized in comprehensive income statement:

	<u>2016</u>	<u>2015</u>
Service cost in current period	\$ 5,128	\$ 125
Interest cost of defined benefit obligation	1,196	1,149
Interest revenue from planned assets	(811)	(807)
Defined benefit cost stated into income	<u>\$ 5,513</u>	<u>\$ 467</u>

(f) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and Article 6 of the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Any deficits thereof shall be made up by the national treasury upon approval of the competent authority. As the Company was not entitled to participate in operation and management of the Fund, it was not impossible for

the Company to disclose the classification of fair value of the planned assets in accordance with Paragraph 142 of Article 19 of IAS. For the fair value of the total assets under the Fund on December 31, 2016 and 2015, please see the labor pension fund utilization report published by the government each year.

- (g) Actuarial hypotheses about pension are summarized as following: (expressed under weighted average method)

	<u>2016</u>	<u>2015</u>
Discount rate	1.70%	1.80%
Future salary and benefit level	2.25%	2.25%

Until December 31, 2016, the weighted average duration of the pension plan has been 17~20 years.

- (h) Analysis of sensitivity

In the calculation of the determined welfare obligation, the company must make use of judgment and estimate to determine relevant actuarial assumption on the reporting date, including the discount rate and update of future salary. Any change in the actuarial assumption may cause the amount of the determined welfare obligation of the company at significant level. Any change in the actuarial assumption will affect the amount of determined welfare obligation of the company.

- (i) The variance in the estimation of discount rate and future salary level increase rate from the management will affect the book value of pension benefit obligation in the following manners:

	<u>Discount rate</u>		<u>Future raise rate</u>	
	<u>Increase by 0.25%</u>	<u>Decrease by 0.25%</u>	<u>Increase by 1.00%</u>	<u>Decrease by 1.00%</u>
December 31, 2016				
Effect on defined benefit obligation %	(4.12%)	4.33%	18.62%	(15.48%)
Amount of effect on defined benefit obligation %	<u>\$ (3,088)</u>	<u>\$ 3,246</u>	<u>\$ 13,958</u>	<u>\$ (11,604)</u>
December 31, 2015				
Effect on defined benefit obligation %	(4.24%)	4.46%	19.04%	(15.79%)
Amount of effect on defined benefit obligation %	<u>\$ (2,817)</u>	<u>\$ 2,963</u>	<u>\$ 12,651</u>	<u>\$ (10,492)</u>

Said analysis of sensitivity refers to the analysis of the effect produced by any change of single hypothesis under the circumstance that the other hypotheses remain unchanged. In practice, a lot of changes in hypotheses might be linked with each other. The analysis of sensitivity adopted the same method used for calculation of net pension liability on the balance sheet.

The methods and hypotheses used by the analysis of sensitivity prepared in the current period are identical with those used in the previous period.

- (j) The Company is expected to contribute NT\$3,900 thousand to the Plan in the reporting period of next year.

B. Defined contribution plans

- (a) With effect on July 1, 2005, the company has established the regulation for the contribution of pension fund in accordance with the "Labor Pension Act" which is applicable to employees of ROC nationality. For the employees electing to adopt the "Labor Pension Act" for retirement, the company allocates 6% of the respective monthly salary to their individual personal pension account at Labor Insurance Bureau. Pension will be disbursed on the basis of the deposit in the personal pension account with accumulated return payable monthly or in lump sum.
- (b) In FY2016 and FY2015, the Company has recognized pension expenses amounted to NT\$47,463 thousand and NT\$43,484 thousand in accordance with the regulation for determination of pension allocation.

(15) EQUITY

- A. The Company's outstanding common stock at beginning and ending is reconciled as follows:

	<u>2016</u>	<u>2015</u>
Balance, January 1	79,005,392	79,536,392
Transfer of treasury stock to employees	600,000	-
Corporate bond conversion	-	69,000
Repurchase of treasury stock	-	(600,000)
Balance, December 31	<u>79,605,392</u>	<u>79,005,392</u>

B. Capital surplus

- (a) Pursuant to the R.O.C. Company Law amended in January 2012, capital surplus shall be first used to offset a deficit and then new shares or cash may be allocated based on realized capital surplus subject to shareholdings. Realized capital surplus referred to in the preceding paragraph included the surplus generated from donations and the excess of the issuance price over the par value of capital stock. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the capital surplus may be transferred to common stock up to an annual limit of 10% of the paid-in capital.

- (b) The balance of the Company's capital surplus:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Common stock premium	\$ 210,163	\$ 210,163
Convertible corporate bond conversion premium	569,216	569,216
Treasury stock trading	58,236	44,073
Donation from shareholders	1	1
Others-issuance of new shares due to acquisition of shares of another company	19,858	19,858

Stock option (Elements of equity of convertible corporate bonds)	28,261	28,261
Total	<u>\$ 885,735</u>	<u>\$ 871,572</u>

- Ⓐ The conversion of 1st and 2nd non-secured domestic convertible corporate bonds already issued by the Company has been completed and generated the capital surplus-convertible corporate bond conversion premium, NT\$480,676 thousand, and capital surplus-treasury stock trading, NT\$8,477 thousand.
- Ⓑ The Company has repurchased 500,000 shares in accordance with the “Regulation for the First Repurchase of Shares for Assignment to Employees” at the cost of NT\$35,387 thousand. As resolved by the Board in a session dated November 26 2009, the treasury shares were assigned to the employees and set November 26 2009 as the subscription date. The Board also resolved to assign all the shares to the employees and the employees of subsidiary Chain-Logic International Corp. at NT\$61.53/share. Under the Black-Scholes pricing model, it is estimated that the fair value of each share is NT\$14.03. The company had capital surplus –treasury trade amounted to NT\$2,300 thousand.
- Ⓒ The Company received the shareholders' waiver of equity and 8 shares were transferred to the Company in June 2013. According to laws, the equity acquired by the Company upon receipt of the shareholders' waiver of the same shall be held as treasury stock and stated at the fair value of the stock on the same day, credited into capital surplus-donation from shareholders, NT\$1,000.
- Ⓓ The Company has made investment through subsidiaries - Chia Hsin Investment Co., Ltd., Yi Hsin Investment Co., Ltd. and Chia Ying Investment Co., Ltd. in associated enterprise - Lumitek Co., LTD, and has raised new capital through the issuance of new shares and the exercise of ESO. The subsidiaries have not subscribed in proportion to their shareholding, the company recognized capital surplus-change in the net equity value of associated accounted for under the equity method amounted to NT\$19,306 thousand. Lumitek Co., LTD. was dissolved on February 28, 2015, and said capital surplus was settled as NT\$0 accordingly.
- Ⓔ The Company issued new shares and swapped the equity with the subsidiary, Chain-Logic International Corp. on June 15, 2002. The Company's shareholding is 100%. The difference between the investment cost and net worth of the acquired equity was NT\$19,858 thousand on the date of investment, stated as capital surplus-others.
3. Retained earnings
- (a) According to the Company's Articles of Incorporation, if the Company has profits after final account for the concerning fiscal year, the profits shall be

allocated in the following order: (1) Payment of tax. (2) Covering of loss; (3) 10% set aside as legal reserve; (4) Provision of special reserve pursuant to laws; (5) The remainder, if any, plus allocable earnings at the end of the year may be subject to the motion for distribution of allocable earnings prepared by the board of directors and submitted to a shareholders' meeting for resolution. Where the earnings are resolved to be allocated, they shall be allocated in the following manners:

- Employee remuneration: at least 20% of the allocable earnings.
- Remuneration to directors/supervisors: no more than 3% of the allocable earnings.
- Shareholders remuneration: the remainder less the allocated amount referred to in the preceding two sub-paragraphs.

The counterparts whom the stock dividends may be allocated to shall include the employees of affiliated companies.

- (b) The shareholders' meeting resolved to amend the Company Act of Incorporation as following on June 17, 2011: For the time being, the Company's industrial development is still growing, the dividend policy requires that the board of directors shall draft the motion for allocation of earnings each year and submit the same to a shareholders' meeting for ratification, subject to the Company's present and future investment environments, funding demand, status of competition domestically/overseas and capital budget and by taking care of shareholders' interest, balanced stock dividend and the Company's long-term financial planning into consideration. The earnings will be allocated in the form of cash dividend or stock dividend, subject to the funding demand and level of dilution of EPS. The cash dividend to be allocated, if any, shall be no less than 10% of the total stock dividend.
- (c) According to the company laws amended in May 2015, employee remuneration and remuneration to directors/supervisors shall not be allocated from earnings any longer. The Company has had the amended Articles of Incorporation resolved and approved by the board of directors on June 16, 2016. Therefore, if the Company has a profit at the year's final accounting, it shall first pay profit-seeking enterprise income tax and make up any losses from past years, and then make contribution of 10% of the balance to the statutory reserve, unless the statutory reserve reaches the amount of the Company paid-in capital, and also make provision/reversal of special reserves pursuant to laws. The residual balance shall be added to undistributed earnings carried from previous years. The Board shall draft a motion for allocation of the residual balance plus the undistributed earnings, and submit the same to a shareholders' meeting to resolve whether shareholder bonus shall be allocated or the

earnings shall be retained.

(d) Legal reserve

According to the Company Law amended in January 2012, the Company shall contribute 10% from the income after tax as the legal reserve until it is equivalent to the gross capital. When the Company suffers no loss, new shares or cash may be allocated from the legal reserve upon resolution of the shareholders' meeting, provided that the new shares or cash allocated shall be no more than 25% of the paid-in capital.

(e) Special reserve

Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve based on the difference between the amount already set aside and the total debit balance of other shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company doesn't need to provide special reserve, pursuant to the related laws in, in 2016 and 2015.

(f) The Company resolved to allocate the cash dividend, NT\$238,816 thousand (NT\$3 per share), to shareholders from earnings 2015 on June 16, 2016.

The Company resolved to allocate the cash dividend, NT\$318,422 thousand (NT\$4 per share), to shareholders from earnings 2014 on June 12, 2015.

(g) The information about allocation of retained earning approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

(h) For the information about remuneration to employees and remuneration to directors/supervisors, please see Note 6(20)

D. Treasury stock

(a) Cause of repurchase and increase/decrease in quantity:

Cause	January 1 to December 31, 2016			
	Quantity, beginning	Increase in current period	Decrease in current period	Quantity, ending
For transfer of shares to employees	600,000	—	600,000	—

Cause	January 1 to December 31, 2015			
	Quantity, beginning	Increase in current period	Decrease in current period	Quantity, ending
For transfer of shares to employees	—	600,000	—	600,000

(b) According to the Securities and Exchange Act, the number of outstanding

shares repurchased may not exceed ten percent of the Company's total number of issued shares. The total amount of the repurchased shares may not exceed the amount of retained earnings plus premium on capital stock and realized capital surplus. The Company repurchased the treasury stock totaling 600,000 shares, i.e. NT\$34,454 thousand, from August to October 2015.

- (c) According to the Securities and Exchange Act, the treasury stock held by the Company shall not be pledged. Before the transfer, the treasury stock shall not be entitled to any shareholder right.
- (d) According to the Securities and Exchange Act, the shares repurchased by a company for transfer of the same to employees shall be transferred within three years from the date of repurchase. The shares not transferred within the said time limit shall be deemed as not issued by the company, and amendment registration shall be processed.
- (e) In order to recruit and retain the technical and professional talents for the Company, and encourage their long-term service, loyalty, productivity and sense of belonging to create interest for the Company and shareholders jointly, the Company established the "Third time Regulations Governing Share Repurchase and Transfer of Shares to Employees", in accordance with Article 28-2 of Securities and Exchange Act, and the Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies promulgated by FSC. The Regulations were approved upon resolution of the board of directors on March 9, 2016. The treasury stock, totaling 2,000,000 shares, was transferred to employees of the Company and Chain-Logic International Corp. wholly owned by the Company on the record date of stock option, namely March 9, 2016, at NT\$54.72 per share. According to the estimation under Black-Scholes evaluation model, the fair value was NT\$23.78 per share on the grant date. The Company recognized the remuneration cost, NT\$12,937 thousand (stated as salary expenses) and the subsidiaries-Chain-Logic International Corp. recognized the remuneration cost, NT\$1,331 thousand (stated as investments accounted for using equity method). The parameters adopted by the evaluation model are stated as following:

		2016 Treasury stock
		<u>transferred to employees</u>
Evaluation Model	Black-Scholes	
	option-pricing model	
	Vesting period	March 9~14,2016
	Dividend yield rate	4.42 %
	Exercise price	\$ 57.42
	Stock price	\$ 81.20
	Expected price volatility	49.60 %

Risk-free interest rate

0.210 %

The price difference between the transfer consideration less necessary trading cost, NT\$34,349 thousand, and capital surplus-employee stock option, NT\$14,268 thousand, and the repurchase cost, NT\$34,454 thousand, was stated into the capital surplus-treasury stock exchange, NT\$14,163 thousand.

(16) Share-based payment — employee compensation plan

As of December 31, 2016, information on outstanding ESO is shown below: N/A

(17) NON-OPERATING INCOME AND EXPENSES

A. Other gains and losses, net

	<u>2016</u>	<u>2015</u>
Gain (loss) from disposition of property, plant and equipment	\$ (175)	\$ (80)
Gain on disposition of investment	—	5,706
Gain (debt) from financial assets and liabilities at fair value through profit or loss	1,742	(2,285)
Foreign currency exchange gain (loss), net	(14,500)	14,843
Loss on valuation of nonfinancial asset	(45,533)	—
Others	(108)	(799)
Total	<u>\$ (58,574)</u>	<u>\$ 17,385</u>

(a) For the notes to gain on disposition of investment, please refer to Note 4(6).

(b) For the notes to loss on valuation of Investments accounted for using equity method, please refer to Note 6(6).

B. Financial cost

	<u>2016</u>	<u>2015</u>
Interest expenses		
Bank loan	\$ 9,937	\$ 3,834
Convertible corporate bond	11,214	11,032
Subtotal	<u>21,151</u>	<u>14,866</u>
Less: capitalized interest	(2,543)	(1,689)
Total	<u>\$ 18,608</u>	<u>\$ 13,177</u>
Capitalized interest rate	<u>1.04%~1.57%</u>	<u>0.5%~1.56%</u>

(18) Income Tax

A. The detail of income tax expenses (benefits) of the company is shown below:

	<u>2016</u>	<u>2015</u>
Income tax in current period:		
Generated in the current period	\$ 73,284	\$ 65,693
Overestimated (underestimated) income tax in previous year	52	(47)
Total income tax in the current period	<u>73,336</u>	<u>65,646</u>
Deferred income tax		
Occurrence and reversal of temporary difference	(3,000)	(21,789)
Effect of changes in tax rate	—	—

Total deferred income tax	(3,000)	(21,789)
Total	\$ 70,336	\$ 43,857

B. The Group recognized Income tax expenses in other comprehensive income are NT\$ 0 start from January to December, at 2016 and 2015.

C. The income tax expenses recognized under the title of equity are NT\$0 start from January to December, at 2016 and 2015.

D. Relations between income tax expenses (gains) and accounting profit

	2016	2015
Net profit (loss) before tax	\$ 633,615	\$ 338,677
Income tax on net profit before tax calculated at the domestic tax rate applicable in the place where the Company is situated (17%)	\$ 107,715	\$ 57,575
Income tax effect included into the items that shall not be recognized pursuant to tax laws	(5,607)	22,341
Income tax effect on deferred income tax assets/liabilities	(3,000)	(21,789)
Unrecognized deferred income tax assets	—	—
Tax-free income	(47,598)	(24,178)
Maximum foreign-tax deduction	—	(706)
Income tax effect on investment credit	(16,896)	(21,027)
Imposition of 10% income tax on undistributed earnings	1,811	14,353
Income tax effect under minimum tax system	33,859	17,335
Overestimated (underestimated) income tax in previous year	52	(47)
Total	\$ 70,336	\$ 43,857

E. Deferred income tax assets and liabilities

(a) Recognized deferred income tax assets and liabilities

	2016				
	January 1	Recognized in income statement	Recognized in other comprehensive income	Exchange difference	December 31
Deferred income tax assets					
Temporary difference					
Unrealized inventory devaluation and obsolescence losses	\$ 37,960	\$ (1,918)	-	-	\$ 36,042
Unrealized exchange loss	275	1,935	-	-	2,210
Unrealized warranty cost	211	230	-	-	441
Bad debt loss	107	(107)	-	-	-
Unrealized loss on valuation of nonfinancial asset	-	7,741	-	-	7,741
Unrealized gain on inter-affiliate accounts	19,878	(3,995)	-	-	15,883

Tax difference on depreciation expenses	13	-	-	-	13
Total	<u>\$ 58,444</u>	<u>\$ 3,886</u>	<u>-</u>	<u>-</u>	<u>\$ 62,330</u>

Deferred income tax liabilities

Temporary difference					
Unrealized exchange gain	\$ (1,147)	\$ 417	-	-	\$ (730)
Unrealized net investment income (foreign)	(2,084)	(1,566)	-	-	(3,650)
Recognition of pension expenses (deficit)	(4,316)	263	-	-	(4,053)
Total	<u>\$ (7,547)</u>	<u>\$ (886)</u>	<u>-</u>	<u>-</u>	<u>\$ (8,433)</u>

2015

	January 1	Recognized in income statement	Recognized in other comprehensive income	Exchange difference	December 31
Deferred income tax assets					
Temporary difference					
Unrealized inventory devaluation and obsolescence losses	\$ 31,640	\$ 6,320	-	-	\$ 37,960
Unrealized exchange loss	373	(98)	-	-	275
Unrealized warranty cost	826	(615)	-	-	211
Bad debt loss	2,250	(2,143)	-	-	107
Unrealized gain on inter-affiliate accounts	5,613	14,265	-	-	19,878
Tax difference on depreciation expenses	13	-	-	-	13
Total	<u>\$ 40,715</u>	<u>\$ 17,729</u>	<u>-</u>	<u>-</u>	<u>\$ 58,444</u>

Deferred income tax liabilities

Temporary difference					
Unrealized exchange gain	\$ (3,060)	\$ 1,913	-	-	\$ (1,147)
Unrealized net investment income (foreign)	(4,770)	2,686	-	-	(2,084)
Recognition of pension expenses (deficit)	(3,777)	(539)	-	-	(4,316)
Total	<u>\$(11,607)</u>	<u>\$ 4,060</u>	<u>-</u>	<u>-</u>	<u>\$ (7,547)</u>

(b) Unrecognized deferred income tax assets

	December 31, 2016	December 31, 2015
Investment credit	-	-
Amount of unrecognized deferred income tax assets	-	-

(c) Unrecognized deferred income tax liabilities

	December 31, 2016	December 31, 2015
Taxable temporary difference	-	-
Amount of unrecognized deferred income tax liabilities	-	-

F. The investment credit tax on deferred income tax assets which has been recognized

by the Company before December 31, 2016 shall be credited by the following deadline:

Item	Total credit	Deducted amount	Credited balance in current period	Balance to be credited	Last year of credit
R&D spending in FY2016	\$ 75,098	\$ --	\$ 16,896	\$ --	(non-deferred)
	\$ 75,098	\$ --	\$ 16,896	\$ --	

(Note) According to the "Regulations Governing Investment Credit Applicable to a Company's R&D Expenditure" promulgated on November 8, 2010, the tax credit shall be no more than 30% of the income tax payable in the year and prohibited from being deferred until next year.

G Authorization of income tax:

The Company has its corporate income tax approved by the taxation authorities until 2014.

H. Information about the Company's two-in-one tax policy:

	December 31, 2016	December 31, 2015
Deductible tax account-Balance	\$ 229,656	\$ 203,330

	2016 (Projected)	2015 (Actual)
Deductible rate of earnings allocation	15.10 %	16.25 %

Said information about the two-in-one tax policy refers to the amount treated according to the letter of Ministry of Finance under Tai-Tsai-Shui No. 10204562810 dated October 17, 2013.

According to Article 66-6 of the amended Income Tax Law, the tax deduction applicable to individual shareholders residing within the territories of the R.O.C. may be discounted at 50% as of January 1, 2015 when the earnings are allocated.

I. Information about the Company's undistributed earnings

Except the balance, NT\$322 thousand, before 1997, the remainder of the Company's undistributed earnings refers to those after 1998.

(19) Earnings Per Common Share

A. Basic EPS

The basic EPS is calculated based on the income vested in the Company's common stock holders dividing by the weighted average number of outstanding common stock.

B. Diluted EPS

The diluted EPS is calculated upon adjustment of the effect of all potential diluted common stocks based on the income vested in the common stock holders and the weighted average number of outstanding common stock.

C. The Company's basic EPS and diluted EPS are calculated as follows:

	2016			2015		
	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)	Amount after tax	Weighted average number of outstanding common stock (thousand shares)	EPS (NT\$)
Basic EPS						
Net profit attributed to the Company's common stock shareholders	\$ 563,279	79,480	\$ 7.09	\$ 294,820	79,429	\$ 3.71
Diluted EPS						
Net profit attributed to the Company's common stock shareholders	\$ 563,279	79,480		\$ 294,820	79,429	
Effect of all potential diluted common stocks						
3rd domestic unsecured convertible corporate bond	—	6,660		—	6,431	
Employee stock option exercise adjustment	—	—		—	—	
Employee stock bonus	—	717		—	470	
Net profit attributed to the Company's common stock shareholders plus effect of potential common stocks	\$ 563,279	86,857	\$ 6.49	\$ 294,820	86,330	\$ 3.42

For the details about capital increase, please see Note 6(15).

(20) Employee benefits, depreciation, depletion and amortization expenses are summarized as follows

Nature	Function	2016			2015		
		Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit expense							
Salary expense (including employees' compensation)		765,048	655,009	1,420,057	545,040	539,575	1,084,615
Labor/health insurance expenses		54,289	46,602	100,891	39,209	33,307	72,516
Pension expenses		28,400	24,577	52,977	21,363	22,588	43,951
Other employee benefit expenses (Note 1)		74,357	22,387	96,744	39,577	23,881	63,458
Depreciation expenses		165,055	67,383	232,438	115,080	61,083	176,163
Depletion expenses		—	—	—	—	—	—
Amortization expenses		15,864	28,867	44,731	12,495	27,746	40,241

(Note 1) The other employee benefit expenses including meal expenses, overtime pay and workers' benefits.

(Note 2) Until the end of 2016 and 2015, the Company has hired 1,444 employees and 1,372 employees respectively.

A. According to the Company's existing articles of incorporation, the Company shall

allocate remuneration to employees and remuneration to directors/supervisors when allocating the earnings. For the details about capital increase, please see Note 6(15). Notwithstanding, according to the Company Law amended on May 20, 2015, the Company shall allocate remuneration to employees in specific amount or at specific percentage, subject to the status of earnings in the year.

- B. The Company has approved the motion for amendments to the Articles of Incorporation on June 16, 2016:

Where the Company retains income before tax after the account settlement, it shall allocate 5%~15% thereof as the remuneration to employees, and 1%~3% thereof as the remuneration to directors/supervisors. However, profits must first be taken to offset against cumulative losses, if any. The remainder, if any, shall be allocated as the remuneration to employees and directors/supervisors on a pro rata basis as referred to in the preceding paragraph.

The allocation of remuneration to employees and directors/supervisors shall be resolved and approved by a majority of the directors present at a directors' meeting attended by more than two-thirds of the whole directors, and reported to a shareholders' meeting.

Employees' remuneration may be paid in the form of stock or in cash, and can be paid to employees of affiliated companies that satisfy certain criteria.

The motion for amendments to the Articles of Incorporation will be submitted to the general shareholders' meeting 2016 for resolution.

- C. The Company estimated the remuneration to employees was NT\$61,660 thousand and NT\$28,640 thousand, respectively, in 2016 and 2015, and the remuneration to directors/supervisors NT\$14,760 thousand and NT\$7,160 thousand. Said values were stated into salary expenses. The values were estimated based on the earnings gained until the current period (this year).
- D. The remuneration to employees and directors/supervisors 2015 resolved to be allocated at the directors' meeting on June 16, 2016 were NT \$28,640 thousand dollars and NT \$7,160 thousand dollars, respectively, identical with that recognized in the financial statement 2015, and the remuneration to employees will be paid in cash. The remuneration will be paid after the amended Articles of Incorporation is resolved at the general shareholders' meeting 2016.
- E. Upon resolution by the shareholders' meeting, the Company's actual cash dividend to shareholders and remuneration to directors/supervisors in 2014 were NT\$49,168 thousand and NT\$11,240 thousand. The difference between the employee remuneration, NT\$48,242 thousand, and remuneration to directors/supervisors, NT\$12,061 thousand, as recognized in the financial statements 2014 was NT\$105 thousand, resulting from the amendment to the estimated employee remuneration and remuneration to directors/supervisors after the Company took the shareholders'

equity and employee benefits, and also the standards in the same trade and future operation into consideration. The difference was held as a change in the accounting estimation and adjusted as income 2015.

- F. The information about remuneration to employees and remuneration to directors/supervisors approved by the Board of Directors and resolved by a shareholders' meeting may be viewed at the "MOPS".

(21) Supplemental cash flow information

A. Investing activities paid in cash in part only:

	<u>2016</u>	<u>2015</u>
Purchase of property, plant and equipment	\$ 249,844	\$ 842,986
Add: Payables for equipment, beginning	90,945	134,676
Less: Payables for equipment, ending	(129,342)	(90,945)
Cash paid in current period	<u>\$ 211,447</u>	<u>\$ 886,717</u>

B. Financing activities not affecting cash flow:

	<u>2016</u>	<u>2015</u>
Conversion of corporate bond conversion into capital stock	\$ —	\$ 690

7. Transactions with related parties

(1) Relations between parent company and subsidiary

The Company's subsidiaries are stated as follows:

	<u>Place of incorporation</u>	<u>Owner's equity (shareholding %)</u>	
		<u>December 31, 2016</u>	<u>December 31, 2015</u>
Chain-Logic International Corp.	Taiwan	100%	100%
Yi Hsin Investment Co., Ltd.	Taiwan	—	100%
Chia Hsin Investment Co., Ltd.	Taiwan	—	100%
Chia Ying Investment Co., Ltd.	Taiwan	—	100%
Won Tung Technology Co., Ltd.	Taiwan	100%	100%
Allstron Corporation	Taiwan	100%	100%
MPI TRADING CORP.	Samoa	100%	100%
MMI HOLDING CO.,LTD.	Samoa	100%	100%
CHAIN-LOGIC TRADING CORP.	Mauritius	100%	100%
CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Mainland China	100%	100%
LEDA-ONE (Shenzhen) Co.	Mainland China	100%	100%
Lumitek (Changchou) Co. Ltd.	Mainland China	100%	100%
MEGTAS CO.,LTD.	Korea	60%	60%

(2) Parent company and ultimate controller

The Company is the ultimate controller of the Group.

(3) Important transactions with related parties

A. Operating revenue

The Company's sales values to related parties are stated as follows:

Type	2016	2015
Sale of products:		
-Affiliates	\$ 58,019	\$ 45,436
-The Company's director	356,503	559,295
-Subsidiary	79,987	352,594
Sale of labor services:		
-The Company's director	81,118	55,162
Total	<u>\$ 575,627</u>	<u>\$ 1,012,487</u>

The price of the Company's sale to related parties was not significantly different from the Company's general selling price.

B. Purchase

The Company's purchase values to related parties are stated as follows:

Type	2016	2015
Affiliates	\$ 666	\$ 23,598
The Company's director	75,070	61,748
Subsidiary	2,541	3,539
Total	<u>\$ 78,277</u>	<u>\$ 88,885</u>

The price of the Company's purchase from related parties was not significantly different from the Company's price of purchase from the general suppliers.

C. Receivable accounts-related parties

The Company's receivable accounts-related parties are stated as following:

Title	Type	December 31, 2016	December 31, 2015
Receivable notes	Subsidiary	\$ —	\$ —
Receivable accounts	Affiliates	14,670	18,633
Receivable accounts	The Company's director	22,390	63,825
Receivable accounts	Subsidiary	148,506	247,294
Accounts receivable		185,566	329,752
Less: Allowance for bad debt		(447)	(520)
Accounts receivable, net		<u>\$ 185,119</u>	<u>\$ 329,232</u>
Other receivable accounts	Subsidiary	<u>\$ 32,745</u>	<u>\$ 18,327</u>

D. Payable accounts-related parties

The Company's payable accounts-related parties are stated as following:

Title	Type	December 31, 2016	December 31, 2015
Accounts payable	Affiliates	\$ 11	\$ 19
Accounts payable	The Company's director	81	2,910
Accounts payable	Subsidiary	655	1,490
Other payable accounts	The Company's director	342	6,667
Other payable accounts	Subsidiary	85,629	56,902
Total		<u>\$ 86,718</u>	<u>\$ 67,988</u>

E. Prepayment

The Company's payable accounts-related parties are stated as following:

Title	Type	December 31, 2016	December 31, 2015
Prepayment for purchase	Subsidiary	\$ —	\$ 165

F. Exchange of property

a. Acquisition of property, plant, and equipment

Type	Nature	2016	2015
The Company's director	Machine & equipment	\$,224	\$ 203
Subsidiary	R&D equipment	\$ 3,818	\$ 849
Affiliates	Other equipments	\$ —	\$ 130

b. Disposition of property, plant, and equipment: None.

G. Loan to others (stated as other receivable accounts-related party)

2016:

Type	Maximum balance	Balance ending	Interest rate %	Interest revenue
Subsidiary	\$ 3,096	\$ —	5.35%	\$ 40

2015:

Type	Maximum balance	Balance ending	Interest rate %	Interest revenue
Subsidiary	\$ 10,983	\$ 3,096	5.35%	\$ 174 (Note)

H. Purchase of labor services from related parties

The Company's expenditure in labor services to related parties are stated as follows:

Type	2016	2015
Promotion-expenditure in commission:		
-Affiliates	\$ 2,770	\$ 3,482
-The Company's director	3,978	1,981
-Subsidiary	82,291	86,647
Promotion-expenditure in royalty:		
-The Company's director	—	42,776
Total	\$ 89,039	\$ 134,886

For the calculation of the royalty to related parties, please see Note 9(2).

I. Others

a. Payment on behalf of others (stated as other current assets): N/A

b. Advance sale receipts

Type	December 31, 2016	December 31, 2015
Affiliates	\$ 2,413	\$ 23
The Company's director	611	688
Subsidiary	3,360	—
Total	\$ 6,384	\$ 711

c. Temporary receipts (stated as other current liabilities): None.

d. Manufacturing expenses (stated as operating cost)

Type	Nature	2016	2015
Affiliates	Other expenses	\$ —	\$ 665
Affiliates	Processing expenses	\$ 2,795	\$ 5,380
The Company's director	Other expenses	\$ 4	\$ 4
Subsidiary	Repair and maintenance expense	\$ 6	\$ —
Subsidiary	Other expenses	\$ 42	\$ 192

e. Selling expenses

Type	Nature	2016	2015
The Company's director	Repair and maintenance expense	\$ —	\$ 4
The Company's director	Other expenses	\$ 964	\$ 1,440
Affiliates	Other expenses	\$ 75	\$ 67
Affiliates	Other expenses	\$ 1,794	\$ —
Subsidiary		\$ 5,511	\$ 436

f. Management expenses

Type	Nature	2016	2015
Affiliates	Other expenses	\$ —	\$ 232
Subsidiary	Dormitory fees paid by employees	\$ (38)	\$ (37)

g. Research expense

Type	Nature	2016	2015
Affiliates	Stationary	\$ —	\$ 4
Affiliates	Other expenses	\$ —	\$ 1,089
Subsidiary	Other expenses	\$ 83	\$ 67
Subsidiary	Repair and maintenance expense	\$ 38	\$ —

h. Lease

The Company's lease revenue from related parties is stated as follows:

Type	2016	2015
Subsidiary	\$ 3,859	\$ 3,870
Affiliates	\$ 450	\$ 1,314

The main contents of lease contract:

Type	Subject matter	Duration of lease	Mode of collection
Subsidiary	Sublet the factory premises building and parking lots at Wenshan Road, Xinpu Township, Hsinchu County	2014/12/21~2017/12/20	NT\$242 thousand per month (before tax) The rent of parking lots was calculated subject to the actual service condition on a monthly basis.
Subsidiary	Jiaren St., Zhubei City, Hsinchu County (Employee dormitory)	2005/12/01~2006/11/30, Renewed automatically upon expiration	Settled based on the actual number of persons on a monthly basis.
Subsidiary	Rent the branch company office at Luchu, Kaohsiung City	2008/04/18~2009/04/17, Renewed automatically upon expiration	NT\$10 thousand per month (before tax)

Affiliates	Sublet the factory premises building at Wenshan Road, Xinpu Township, Hsinchu County	2014/11/01~2017/10/31	NT\$1,359 thousand per month (before tax) The rent of health center was NT\$296 (before tax) after January 1, 2015; The rent of health center was NT\$185 (before tax) after February 1, 2015; The rent of health center was NT\$162 (before tax) after March 1, 2015; The rent of health center was NT\$105 (before tax) after April 1, 2015; The rent of health center was NT\$67 (before tax) after June 1, 2015; The rent of health center was NT\$61 (before tax) after July 1, 2015; The rent of parking lots was calculated subject to the actual service condition on a monthly basis.
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i. Other revenue

Type	2016	2015
The Company's director	\$ 272	\$ 6,504
Affiliates	\$ 812	\$ 1,476
Subsidiary	\$ 30,702	\$ 18,608

j. Information about remuneration to the management

Information about remuneration to the Company's management is stated as follows:

	2016	2015
Salary and other short-term employee benefits	\$ 10,540	\$ 13,857
Resignation benefits	—	—
Retirement benefits	—	—
Other long-term benefits	—	—
Total	\$ 10,540	\$ 13,857

Said remuneration to the management is decided by the Remuneration Committee subject to personal performance and market trend. For the relevant information, please see the annual report of the general shareholders' meeting.

8. Pledged assets

The following assets have been provided to the Company as the collaterals for bank loans, import business tax and sale commitment. The book value thereof is stated as follows:

	December 31, 2016	December 31, 2015
Land	\$ 699,538	\$ 699,538
Building	910,837	937,299
Pledged time deposit (stated as other current assets)	8,469	8,431
Total	\$ 1,618,844	\$ 1,645,268

9. Significant contingent liability and unrecognized contractual commitment

(1) Contingency: N/A.

(2) Commitment:

- A. In order to upgrade the product quality and local content rate, the Group entered into the cooperative contract with the following companies. The main contents of the contract are stated as follows:

Cooperative company	Payment method	Product by technical cooperation
the Company's director-MICRONICS JAPAN CO., LTD.	The technical remuneration equivalent to 3% of the total sales value of all probe cards manufactured and sold by the Company shall be payable once per quarter. (Terminated on November 30, 2015)	Provide the technology and intelligence for improvement on precision of the position of pins applied to IC wafer inspection.

- B. Balance of unused letter of credit issued by the Company, guarantee money paid and service charges: N/A.
- C. The Company's significant long-term rent:
- (a) The Company rented the land lots in Tainan Science Park from Southern Taiwan Science Park Administration for construction of Luchu 1st Plant and 2nd Plant. The lease commenced from February 15, 2005 and October 1, 2006 respectively. According to the lease contract, the lease of the land shall persist for no more than 20 years, and the lease shall expire on December 31, 2024. Upon expiration of the lease, both parties may enter into a new contract; otherwise, the contract shall terminate naturally and the Company is prohibited from claiming the continuance of lease or irregular lease with any excuse. In the case of land price re-set by the government pursuant to laws, the rent shall be adjusted and collected based on the re-set land price.
 - (b) The Company rented the land at Taiho Section, Zhubei City, Hsinchu Country from a non-related party for parking lots. The lease shall be effective from May 15, 2012 to May 14, 2017, for a total of 5 years. The Company shall surrender the land to the lessor upon expiration of termination of the lease contract.
 - (c) The Company rented the land and the construction at Zhonghe Street, Zhubei City, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on August 31, 2018. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.
 - (d) The Company rented the land and the construction at Guangfu Rd, Hukou Township, Hsinchu Country from a non-related party for parking lots and plants. The lease shall expire on September 30, 2021. According to the lease contract, upon expiration of the lease, the company has the priority to rent under the same conditions.

The income expenses for said two lots of long-term operating leased land were stated as NT\$8,737 thousand and NT\$7,395 thousand in 2016 and 2015.

The future payable rent for important long-term operating lease is stated as follows:

	<u>December 31, 2016</u>
Less than one year	\$ 13,537
One year to five years	39,254
More than five years	11,653
Total	<u>\$ 64,444</u>

D. The outstanding amount under the purchase orders signed for the Company's purchase of equipment is stated as following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Purchase of property, plant and equipment	\$ 196,205	\$ 73,940

10. **Significant disaster loss:** N/A.

11. **Significant subsequent events:** N/A.

12. **Others**

(1) **Fair value information of financial instruments**

A. Financial instruments not at fair value :

The carrying amounts of the Company' (including cash and cash equivalents, accounts receivable, other receivables, Pledged time deposit ,short-term loans, notes payable, accounts payable and other payables are approximate to their fair values.

Noncurrent financial instrument (including refundable deposit, deposits received, long-term loans, term accounts payable) , The effect of discounting is minor, thus, the book value are approximate their the fair values. Fair value recognized in the consolidated balance sheet:

B. Fair value measurements recognized in the consolidated balance sheets :

The Company applied the input which was observable in the market as possible as it could when measuring its assets and liabilities. The level of fair value is concluded as following based on the input used by the valuation technology:

1st level: Open quotation of the same assets or liabilities in an active market on the date when the assets or liabilities may be acquired (before adjustment). The active market means the market in which there are frequent and large volumes of transactions to provide the information about pricing on an ongoing basis.

2nd level: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

3rd level: Inputs for the asset or liability that are not based on.

	<u>1st level</u>	<u>2nd level</u>	<u>3rd level</u>	<u>Total</u>
December 31, 2016				
Financial assets				
Financial Assets held for trading - current	—	\$ 60	—	\$ 60
Financial liabilities	—	—	—	—

December 31, 2015

Financial assets	—	—	—	—
Financial liabilities				
Financial liabilities held for trading - current	—	\$ 1,682	—	\$ 1,682
Convertible corporate bond				

(a) The methods and hypotheses used by the Company to measure fair value are stated as following:

With respect to more complicate financial instruments; the Company applied the evaluation models consisting of the evaluation methods and technologies extensively employed in the same trade to measure the fair value. Such evaluation model is used to applying to the debt instruments or securitization products, including financial derivatives and embedded derivatives.

(b) There was no transfer between Level 1 and Level 2 for the measurement of fair value for 2016 and 2015.

(c) Among the total gains (losses) stated into the income, the gains (losses) related to the financial derivatives were NT\$1,742 thousand and (NT\$2,285) thousand in 2016 and 2015.

(2) Financial risk management

A. Purpose

(a) The Company's financial risk management aims to manage the market risk, credit risk and liquidity risk related to operating activities, and to identify measure and administer said risks based on policies and risk preference.

(b) The Company has established adequate policies, procedures and internal controls pursuant to the related regulations, in order to manage said financial risk. The important financial activities shall be audited and approved by the board of directors according to the related regulations and internal control system. In the duration of financial management activities, the Company shall strictly comply with the requirements related to financial risk management defined by the Company.

B. Nature and degree of important financial risk

(a) Market risk

The Company's market risk arises from market price fluctuation resulting in fluctuation of the fair value or cash flow of financial instruments. The market risk primarily includes foreign exchange risk, interest rate risk and other pricing risks.

Practically, few single risk variances would change independently. Additionally, changes of various risk variances are generally correlative to each other. Notwithstanding, the sensitivity analysis of the following risks does not take the interaction of related risk variances into consideration.

Ⓐ Foreign exchange risk

The Company's foreign exchange risk arises primarily from the operating activities (revenue or expense denominated in the currency different from the Company's functional currency) and net investment in foreign operations.

The Company's receivable accounts denominated in foreign currency are identical with payable accounts denominated in foreign currency in some currencies and, therefore, the equivalent positions would produce the hedging effect naturally. Considering that said natural hedging did not meet the hedging accounting policy, the Company did not adopt the hedging accounting policy. Further, the net investment in foreign operations was identified as strategic investment. Therefore, the Company did not adopt any hedging policy against it.

The sensitivity analysis on the Company's foreign exchange risk was primarily intended to be conducted against the titles in foreign currencies at the end of the financial reporting and the effect produced by the revaluation/devaluation of related foreign currencies on the Company's income and equity. The Company's foreign exchange risk arises primarily from fluctuation in the foreign exchange rate of USD, Japanese Yen and Euro.

The Company's business lines involved some non-functional currencies (the functional currency of the Company and some of its subsidiaries was NTD, and that of some subsidiaries is USD, RMB or Won). Therefore, the Company would be subject to the effect produced by fluctuation in foreign exchange rate. The information about assets denominated in foreign currency exposed to significant effect produced by fluctuation in foreign exchange rate is stated as follows:

December 31, 2016

	Currency unit	Amount in foreign currency (thousand dollars)	Applicable foreign exchange rate, ending (Dollar)	Book value (NTD) (thousand dollars)
Financial assets	NTD/USD	\$ 8,079	32.25	\$260,548
	NTD/JPY	\$ 1,832	0.2727	\$ 500
	NTD/EUR	\$ 48	33.775	\$ 1,621
	NTD/RMB	\$ 27,515	4.6175	\$127,051
	NTD/KRW	\$ 327	0.02701	\$ 9
	NTD/HKD	\$ 4	4.1055	\$ 16
	NTD/SGD	\$ 6	22.17	\$ 133
	NTD/MYR	\$ 11	6.905	\$ 76
Financial liabilities	NTD/USD	\$ 2,668	32.25	\$ 86,043
	NTD/JPY	\$ 16,934	0.2727	\$ 4,618
	NTD/EUR	\$ 329	33.775	\$ 11,112

NTD/RMB	\$	28	4.6175	\$	129
NTD/SGD	\$	10	22.17	\$	222

December 31, 2015					
	Currency unit	Amount in foreign currency (thousand dollars)	Applicable foreign exchange rate, ending (Dollar)		Book value (NTD) (thousand dollars)
Financial assets	NTD/USD	\$ 8,232	32.8725	\$	270,226
	NTD/JPY	\$ 1,674	0.2727	\$	464
	NTD/EUR	\$ 601	35.8815	\$	21,575
	NTD/RMB	\$ 43,589	4.9925	\$	217,736
	NTD/KRW	\$ 617	0.02811	\$	17
	NTD/HKD	\$ 4	4.181	\$	16
	NTD/SGD	\$ 6	23.248	\$	132
	NTD/MYR	\$ 7	7.3425	\$	52
Financial liabilities	NTD/USD	\$ 1,508	32.875	\$	49,557
	NTD/JPY	\$ 65,757	0.2737	\$	18,034
	NTD/EUR	\$ 165	35.8815	\$	5,956
	NTD/RMB	\$ 27	4.9925	\$	134
	NTD/KRW	\$ 270	0.02811	\$	8
	NTD/SGD	\$ 17	23.248	\$	389

In consideration of the Company's multiple functional currency types, the information about exchange gain or loss for currency is disclosed by summarization. The foreign currency exchange gain (loss) (including the realized and unrealized) was (NT\$14,500) thousand and NT\$14,843 thousand in 2016 and 2015.

Ⓑ Interest rate risk

The interest rate risk arises when the fluctuation of market interest rate results in fluctuation in fair value of financial instruments or in future cash flow. The Company's interest rate risk arises primarily from the loan with floating interest rate.

The Company maintained adequate portfolio with fixed and floating interest rates to manage the interest rate risk.

Ⓒ Pricing risk

Due to the fact that in the investment held by the Company indicated in the individual balance sheet, the Company did not hold the financial assets including equity instruments. Therefore, the Company did not suffer significant pricing risk.

Ⓓ Other risks over market value

In addition to meeting expected consumption and sale needs, the Company did not sign any product contract which did not apply net settlement.

Ⓔ Under the circumstance that all of the other factors remained unchanged, the sensitivity analysis on the changes in related risks before tax on

December 31, 2016 and 2015 is stated as following:

December 31, 2016		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk risk	Fluctuation in foreign exchange rate +/- 3%	+/-10,770 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/- 1,575 thousand
December 31, 2015		
Primary risk	Range of change	Sensitivity of income
Foreign exchange risk risk	Fluctuation in foreign exchange rate +/- 3%	+/-13,226 thousand
Interest rate risk	Loan with floating interest rate +/- 0.25%	+/- 2,023 thousand

(b) Credit risk

- Ⓐ Credit risk represents the financial loss that would be incurred by the Company if its customers or financial instrument trading counterparts fail to perform the contracts.
- Ⓑ According to the loan policy expressly defined internally in the Company, Business Dept. shall conduct the management and credit risk analysis on each new customer before setting payment and proposing the delivery terms and conditions. The internal risk control evaluates customers' credit quality by taking into consideration the customers' financial position, and past experience and other factors. The individual risk limit is set by the management according to the internal or external ratings. The management will also control the periodic drawdown of credit limits. The main credit risk results from derivative financial instruments and the balance deposited in banks and financial organizations, and customers' credit risk, including the unearned accounts receivable and undertaken transactions. The Bank also applied some credit enhancement instruments (e.g. advance sale receipts) in a timely manner to reduce customers' credit risk.
- Ⓒ In 2016 and 2015, no circumstances resulting in excess of the credit limit have taken place. Meanwhile, the management expects no material loss resulting from trading counterpart's failure to perform contract.
- Ⓓ The Company grants the loan period varying based on the evaluation on each trading customer, generally O/A 90 days or 150 days. For the information about the changes of bad debt provided for the Company's impairment on receivable accounts and account age analysis on loans, please see Note 6(3):

Ⓔ The Company's Finance Dept. manages the credit risk over the deposits in banks and other financial instruments according to the Company's policy. The Company's trading counterparts were decided by the internal control procedure, who were trustworthy banks and corporations which were not expected to breach the contracts. Therefore, there should be no significant credit risk.

Ⓕ Guarantee

According to the Company's policy, the Company may only make financial guarantee for the subsidiaries wholly owned by the Company. Before December 31, 2016 and 2015, the Company has never made any endorsements/guarantees.

(c) Liquidity risk

Ⓐ The liquidity risk arises when the Company fails to deliver cash or other financial assets to repay financial liabilities and to perform the related obligation. The Company managed the liquidity in a manner ensuring that the Company has sufficient working fund to repay matured liabilities under the general and critical circumstances, so as to avoid unacceptable loss or impairment on the Company's goodwill.

Ⓑ The Company's will call the management meeting periodically to assist Financial Accounting Dept. Control the need for cash flow and the optimal investment return in cash. Generally, the Company will ensure that it has sufficient cash to meet the need for expected operating expenditure for 90 days, including performance of financial obligation, but excluding the potential effect which it is impossible to expect reasonably under extreme circumstances, e.g. natural calamity. The unused limit of the Company's loan totaled NT\$1,450,000 on December 31, 2016.

Ⓒ The following table refers to the non-derivative financial liabilities and grouped subject to the relevant expiry dates. The non-derivative financial liabilities are analyzed based on the residual period from the date of balance sheet until the expiry date. Nevertheless, the Company did not hold derivative financial liabilities.

Non-derivative financial liabilities	December 31, 2016			
	Within 1 year	1~2 years	More than 2 years	Total
Short-term loan	\$ 380,000	\$ -	\$ -	\$ 380,000
Payable accounts (including related party)	406,173	-	-	406,173
Other payable accounts (including related party)	817,521	-	-	817,521
Current portion of call option	590,647	-	-	590,647
Long-term loan (including the current portion)	9,328	9,328	231,312	249,968

Total	<u>\$2,203,669</u>	<u>\$ 9,328</u>	<u>\$ 231,312</u>	<u>\$ 2,444,309</u>
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Non-derivative financial liabilities	December 31, 2015			Total
	Within 1 year	1~2 years	More than 2 years	
Short-term loan	\$ 550,000	\$ -	\$ -	\$ 550,000
Payable accounts (including related party)	374,093	-	-	374,093
Other payable accounts (including related party)	598,831	-	-	598,831
Current portion of call option	579,433	-	-	579,433
Long-term loan (including the current portion)	9,328	9,328	240,740	259,396
Total	<u>\$2,111,685</u>	<u>\$ 9,328</u>	<u>\$ 240,740</u>	<u>\$ 2,361,753</u>

(3) Capital risk management

The Company's capital management objective is intended to protect the Company's continued operation and ensure maintenance of well-founded credit ratings and optimal capital structure to reduce capital cost, in order to support the enterprise's operation and maximization of shareholders' return. The Company manages and adjusts the capital structure subject to the economic condition. The Company might adjust the stock dividend to be paid, refund of capital, issuance of new shares or realization of assets to reduce liabilities, in order to maintain and adjust the capital structure.

The Company controls its capital structure based on the debt/equity ratio. Said ratio is net liabilities dividing by the net worth. The Company maintained the same strategy in 2016 as that in 2015, dedicated to maintaining the debt/equity ratio less than 100%. The Company's debt ratios on December 31, 2016 and 2015 are stated as follows:

	December 31, 2016	December 31, 2015
Total liabilities	\$ 3,184,212	\$ 2,902,890
Total net worth	3,946,956	3,632,590
Debt/equity ratio	81%	80%

13. Disclosures of Notes

(1) Information about important transactions

According to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the Company shall also disclose the information about important transactions:

No.	Contents	2016
1	Loans to others:	Attached table 1
2	Endorsement/guarantees made for others:	N/A
3	Marketable securities-ending	N/A
4	Cumulative amount of the same marketable securities purchased or sold reaching 300 million NTD or more than 20% of the paid-in capital in the current period.	N/A
5	Acquisition amount of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A
6	Amount on disposal of real estate reaching 300 million NTD or more than 20% of the Paid-in capital.	N/A

7	Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital.	Attached table 2
8	Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital.	Attached table 3
9	Transactions of derivative instruments.	N/A
10	Business relationship and important transactions between parent company and subsidiaries.	N/A

Attached table 1: Loans to others

No. (Note 1)	Lender	Borrower	Account titles	Related party	Maximum balance in current period (Note 2)	Balance, ending	Drawdown (Note 3)	Interest rate range	Nature of loans to others	Amount of transaction	Reasons necessary for offering short-term loans	Allowance for bad debt	Collateral		Limit of loans to particular borrower (Note 5)	Limit of total loans (Note 5)
													Name	Value		
0	The Company	MEGTAS CO.,LTD.	Other receivable accounts-related party	Yes	\$7,980	—	—	5.35%	Short-term loans	—	Working capital	—	—	—	\$372,570	\$1,490,282

Note 1: "0" for the Company and each investee are numbered in sequential order starting from 1.

Note 2: The maximum balance of the loan to others accumulated in the current year until the reporting month.

Note 3: The facility of the loan to others still effective until the reporting month

Note 4: The Company's board of directors resolved on March 24, 2015 to loan the fund to its subsidiary, MEGTAS CO., LTD., in the amount of NT\$7,980 thousand. The Contract term is from July 23, 2015 to July 22, 2016.

The subsidiary, MEGTAS CO., LTD., has repaid NT\$3,096 thousand of the loan on March 23, 2016.

Note 5: According to the Company's Operating Procedure for Loaning to Others, the limit of loan shall be set in the following manners:

A. The limit of total loans to ptjers shall be no more than 40% of the net worth in the Company's latest financial statement: NT\$3,725,704 thousand (the Company's net worth on December 31, 2014) X 40% = NT\$1,490,282 thousand.

B. The limit of loan to any single subsidiary shall be no more than 10% of the net worth in the Company's latest financial statement: NT\$3,725,704 thousand (the Company's net worth on December 31, 2014) X 10% = NT\$372,570 thousand.

Attached table 2: Amount on purchase from and sale to related parties reaching 100 million NTD or more than 20% of the Paid-in capital

Seller/buyer	Trading counterpart	Relationship	Status				Distinctive terms and conditions of trade and the reasons		Accounts/notes receivable (payable)		Remark
			Purchase (sale)	Amount	Percentage in total purchase (sale) amount	Extension of loan Duration	Unit price	Duration of loan	Balance	Percentage in total accounts/notes receivable (payable)	
The Company	MJC Electronics Corporation	Subsidiary of the	Sale	\$ 346,186	8 %	same as that applicable	—	—	Receivable accounts	3%	

		Company's director, MJC				to the general customer			\$ 22,390		
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Attached Table 3: Accounts receivable-related party reaching 100 million NTD or more than 20% of the Paid-in capital

Name of company stated into receivable accounts	Trading counterpart	Relationship	Balance of receivable accounts-related parties	Turnover rate	Overdue receivable accounts-related parties		Subsequent recovered amount of receivable accounts-related parties	Allowance for bad debt
					Amount	Treatment		
MPI Corporation	Lumitek (Changchou) Co. Ltd.	The Company's subsidiaries are stated as follows:	Receivable accounts \$ 125,963	0.1307	—	—	\$ 5,956	—

(2) Information about investees

The information about name, territory, business lines, original investment amount, shares held at ending, income and investment income recognized in the current period of the investees in which the Company may exert material influence or control directly or indirectly (exclusive of investees in Mainland China) in 2016 is stated as follows:

Investor	Investee	Territory	Business lines	Original investment amount		Held at ending			Investee income recognized in current period (Note 1)	Investment income recognized in the current period (Note 2) (Note 3)	Remark
				End of the period	End of last year	Quantity	Ratio	Book value			
MPI Corporation	MPI TRADING CORP.	Offshore Chambers, P.O.BOX 217, APIA,SAMOA	Trading of probe cards and semi-automatic probers	\$ 32	\$ 32	1,000	100%	\$ 58,433	\$ 5,827	\$ 5,827	Subsidiary of MPI Corporation
MPI Corporation	MMI HOLDING CO.,LTD.	Offshore Chambers, P.O.BOX 217, APIA,SAMOA	Holding company	\$ 635,844	\$ 603,864	19,390,045	100%	\$ 589,749	\$ 6,447	\$ 6,810	Subsidiary of MPI Corporation (Note 4)
MPI Corporation	MEGTAS CO.,LTD.	134 Gunseo-ri, Jikson-eub, Seobuk-gu, Cheonan, Chungnam,331-811, Korea	Manufacturing, processing and sale of semi-conductor equipment and industrial mechanical spare parts, and manufacturing and sale of pottery and electronic spare parts	\$ 39,906	\$ 39,906	300,000	60%	\$ 19,074	\$ (6,104)	\$ (3,420)	Subsidiary of MPI Corporation
MPI Corporation	Chain-Logic International Corp.	3F, No. 153, Zhonghe Street, Zhubei City, Hsinchu County	Professional agent of semi-conductor	\$ 50,000	\$ 50,000	5,000,000	100%	\$ 234,742	\$ 13,528	\$ 14,269	Subsidiary of MPI Corporation
MPI Corporation	Chia Hsin Investment Co., Ltd.	3F, No. 10, Lane 98, Jiaren Street, Neighborhood 36, Shixing Vil., Zhubei City, Hsinchu County	General investment	— (Note5)	\$ 33,500	—	—	—	\$ 4,332	\$ 4,332	Subsidiary of MPI Corporation
MPI Corporation	Yi Hsin Investment Co., Ltd.	3F, No. 10, Lane 98, Jiaren Street, Neighborhood 36, Shixing Vil., Zhubei City, Hsinchu County	General investment	— (Note5)	\$ 33,500	—	—	—	\$ 4,332	\$ 4,332	Subsidiary of MPI Corporation
MPI Corporation	Won Tung Technology Co., Ltd.	1F, No. 100, Jiaren Street, Zhubei City, Hsinchu County	Manufacturing of telecommunicati on appliances, wholesale and retail of electronic materials, and manufacturing of electronic components	\$ 500	\$ 500	50,000	100%	\$ 188	\$ (116)	\$ (116)	Subsidiary of MPI Corporation

MPI Corporation	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County	Manufacturing of electronic spare parts	\$ 18,551	\$ 1,976	7,473,968	20.15 %	\$ 3,360	\$ (1,687)	\$ (13,214)	MPI adopted the evaluation under equity method.
MPI Corporation	Allstron Corporation	No. 8, Lane 98, Jiaren Street, Neighborhood 36, Xinan Vil., Zhubei City, Hsinchu County	High-frequency wafer measurement probe card manufacturer	\$ 50,000	\$ 50,000	1,550,000	100%	\$ 2,496	\$ (224)	\$ (224)	Subsidiary of MPI Corporation (Note 5)
Chain-Logic International Corp.	CHAIN-LOGIC TRADING CORP.	Offshore Incorporations (Mauritius) Limited, G.P.O.BOX 365,307 St James Court, St Denis Street, Port Louis, Republic of Mauritius.	Primarily engaged in international trading	\$ 46,921	\$ 46,921	1,400,100	100%	\$ 73,317	\$ (7,231)	—	Subsidiary of Chain-Logic International Corp.
Chain-Logic International Corp.	Chia Ying Investment Co., Ltd.	3F, No. 8, Lane 98, Jiaren Street, Neighborhood 36, Shixing Vil., Zhubei City, Hsinchu County	General investment	—(Note5)	\$ 33,300	—	—	—	\$ 4,551	—	Subsidiary of Chain-Logic International Corp.
Chia Ying Investment Co., Ltd.	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County	Manufacturing of electronic spare parts	—(Note5)	\$ 18,000	—	—	—	—	—	Chia Ying Investment Co., Ltd. adopted the evaluation under equity method.
Chia Hsin Investment Co., Ltd.	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County	Manufacturing of electronic spare parts	—(Note5)	\$ 33,000	—	—	—	—	—	Chia Hsin Investment Co., Ltd. adopted the evaluation under equity method.
Yi Hsin Investment Co., Ltd.	Lumitek Co.,LTD	No. 988, Sec. Litoushan, Wenshan Road, Xinpu Township, Hsinchu County	Manufacturing of electronic spare parts	—(Note5)	\$ 33,000	—	—	—	—	—	Yi Hsin Investment Co., Ltd. adopted the evaluation under equity method.

Note 1: Except MEGTAS CO., LTD., which recognized the investment income based on the financial statements audited and certified by other external auditors and Lumitek Co., LTD. that has already applied for dissolution and is under the liquidation process (the Company has recognized the share of affiliated enterprise with the equity methods according to the invested company's non-CPA audited financial statements, and the Company's management believes that no major adjustment will be made to the said statements even after a CPA audit), the Company has recognized invested companies' shares of investment gains and losses with the equity methods according to their financial statements audited by CPA.

Note 2: The investment income recognized in the current period includes the investment income recognized under equity method and realized (unrealized) gain recognized from upstream/side stream transactions.

Note 3: The subsidiaries' income recognized in the current period includes the investment income to be recognized for their re-investment pursuant to the requirements.

Note 4: In order to meet the need for business expansion, the Group's subsidiary, MMI HOLDING CO., LTD., increased capital by US\$7,500,000 (equivalent to NT\$235,875 thousand) in February 2015, and by US\$600,000 (equivalent to NT\$19,140 thousand) in August 2015, and by US\$2,900,000 (equivalent to NT\$94,975 thousand) in November 2015, and by US\$1,000,000 (equivalent to NT\$31,980 thousand) in December 2016. So far, the Group has invested a total of US\$20,390,045 in the subsidiary, MMI HOLDING CO., LTD., totaling 20,390,045 shares, at the par value of US\$1 per share. The Company's shareholding was 100%.

In order to expand the market in Mainland China, the Group invested Lumitek (Changchou) Co. Ltd. via the Group's subsidiary, MMI HOLDING CO., LTD., increased capital by US\$7,500,000 thousand (equivalent to NT\$235,875 thousand) again in February 2015, and by US\$600,000 (equivalent to NT\$19,140 thousand) again in August 2015, and by US\$2,900,000 (equivalent to NT\$94,975 thousand) in November 2015, and by US\$1,000,000 (equivalent to NT\$31,980 thousand) in December 2016. Until now, a total of US\$16,000,000 has been invested in Lumitek (Changchou) Co. Ltd., and the subsidiary, MMI HOLDING CO., LTD., held it wholly. The investment project was approved by Investment Commission, Ministry of Economic Affairs.

Note 5: By resolution of the board of directors on May 11, 2016, the Group would sell 17.87% of LUMITED Corporation's equity shares owned by its three subsidiaries (JIA-SIN INVESTMENT CORP., YI-SIN INVESTMENT CORP. and JIA-YING INVESTMENT CORP.) to ultimate parent company, MPI CORPORATION, which was in the event of liquidation. According to the legal interpretation of Ministry of Economic Affairs, original shareholders have the right to transfer their shares to others during company liquidation and it does not violate corporate law. The Group has migrated and integrated in MPI CORPORATION, and the Uni-President Enterprises Corporation deal with the proportional distribution of LUMITED CORPORATION of residual property claims request. It is unnecessary to keep the three subsidiaries in operation after their equity shares of LUMITED CORPORATION were all transferred. Therefore, the three subsidiaries were closed down.

(3) Information related to investments in China

A. Information related to investments in the territories of Mainland China

Name of Chinese investee	Business lines	Paid-in capital	Mode of investment	Accumulated investment balance, beginning	Amount remitted or recovered in the current period	Accumulated investment balance, ending	Investee income recognized in current period	Direct and indirect shareholding of the Company	Recognized in the current period Investment income recognized in the current period (Note 4)	Book value, ending	Accumulated investment income received until the end of period
CHAIN LOGIC (SHANGHAI) INTERNATIONAL CORP.	Primarily engaged in international trading	USD 1,400,000 (\$46,917)	(Note 1)	USD 1,400,000 (\$ 46,917)	—	USD 1,400,000 (\$ 46,917)	\$ (7,235)	100 %	\$(7,235)	\$ 67,812	\$15,852
Mjc Microelectronics (Shanghai) Co., Ltd.	Design and production of electronic equipment, testing instrument and probe card for semi-conductor testing, and sale of self-made products	USD 1,500,000 (\$52,033)	(Note 2)	USD 600,000 (\$20,813)	—	USD 600,000 (\$ 20,813)	\$ 1,689	40 %	\$ 676	\$ 30,155	\$40,273
MET	Electronic and communication technology development and import/export of electronic parts	RMB 500,000 (\$ 2,396)	(Note 3)	—	—	—	\$ 2,050	40 %	\$ 820	\$ 2,359	—
LEDA-ONE (Shenzhen) Co.	Production of new electronic components, LED prober, LED sorting machine, and LED spectrometer, and development of new electronic components	USD 1,800,000 (\$54,111)	(Note 2)	USD 1,800,000 (\$ 54,111)	—	USD 1,800,000 (\$ 54,111)	\$ (12,847)	100 %	\$(12,847)	\$ 5,145	—
	Design and production of electronic equipment, testing instrument and probe card for semi-conductor testing, and sale of self-made products	USD 4,900,000 (\$143,558)	(Note 2)	USD 1,960,000 (\$ 57,423)	—	USD 1,960,000 (\$ 57,423)	\$ 9,162	40 %	\$ 3,665	\$ 62,982	—
	R&D and production of LED semi-conductor	USD 16,000,000 (\$502,470)	(Note 2)	USD 15,000,000 (\$470,490)	USD 1,000,000 (\$31,980)	USD 16,000,000 (\$502,470)	\$ 13,094	100 %	\$ 13,094	\$475,824	—

LED chips, spare parts of calculators, LED process equipment, and new electronic components; procurement, wholesale, commissioned agency and import/export of electronic materials, electronic components, electronic products, LED process equipment, mechanical equipment and spare parts.											
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Note 1: Reinvest the company in Mainland China via the offshore subsidiary, CHAIN-LOGIC TRADING CORP.

Note 2: Reinvest the company in Mainland China via the offshore subsidiary, MMI HOLDING CO., LTD.

Note 3: Reinvest the company in Mainland China by own fund via the China investee, Mjc Microelectronics (Shanghai) Co., Ltd.

Note 4: The investment income was recognized based on the financial statements audited by the parent company's external auditors.

Note 5: The motion for liquidation of LEDA-ONE (Shenzhen) Co. submitted by the Company and approved by the directors' meeting on September 5, 2014 was still pending liquidation on the reporting date.

B. Information related to ceiling on investment in Mainland China

Accumulated amount of remittance from Taiwan to Mainland China at the end of period	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs	Ceiling on investment in Mainland China imposed by the Investment Commission of the Ministry of Economic Affairs (Note)
USD 21,760,000 (NTD 681,734)	USD 21,760,000 (NTD 681,734)	NTD 2,375,869

Note: The ceiling shall be the higher of the net worth or 60% of the consolidated net worth.

C. Important transactions:

For the important transactions of the Company with the investees in Mainland China, direct or indirect, in 2016 (which have been eliminated when preparing the consolidated financial statements), please see the "Information related to the investees" and "Major business dealings and transactions between the parent

company and its subsidiaries” referred to in Note 13 to the consolidated financial statements.

14. Information by department

Please see the consolidated financial statements 2016.